

CITY OF NEWPORT BEACH CALIFORNIA



COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2004



*Comprehensive Annual Financial Report
For the Year Ended June 30, 2004*

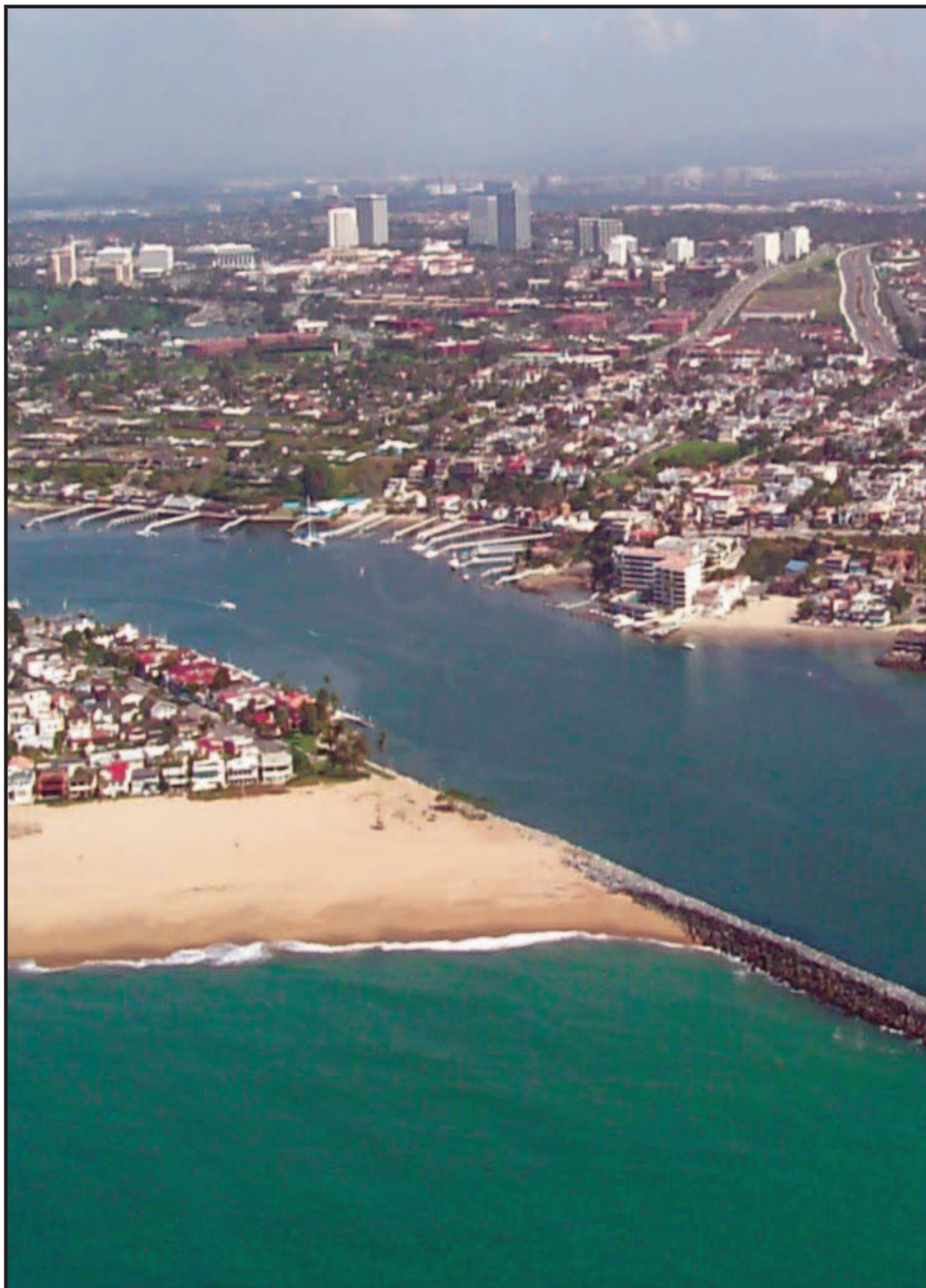
*Prepared by the Administrative Services Department
Dennis Danner, Director*



THE CITY OF NEWPORT BEACH WAS INCORPORATED SEPTEMBER 1, 1906
THE PRESENT CITY SEAL WAS ADOPTED JUNE 22, 1957

Introductory Section

Introductory Section



CITY OF NEWPORT BEACH
Comprehensive Annual Financial Report
Year Ended June 30, 2004

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(Unaudited)

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CITY OF NEWPORT BEACH

ADMINISTRATIVE SERVICES

Dennis Danner, Director/Treasurer

November 29, 2004

Honorable Mayor and Members of the
City Council
City of Newport Beach
Newport Beach, California

The City Charter and California state law require that the City of Newport Beach issue annually a complete set of financial statements and that an independent firm of certified public accountants audit this report in conformance with generally accepted auditing standards (GAAS). The Comprehensive Annual Financial Report (CAFR) of the City of Newport Beach for the year ended June 30, 2004, is hereby submitted.

The CAFR was prepared in conformance with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). This report consists of City management's representations concerning the finances of the City of Newport Beach. Responsibility for the accuracy and completeness of the data presented rests with the City. Management of the City is also responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the government are protected from loss, theft, or misuse, and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. We believe the information presented in this report is complete and accurate in all material respects, and that it is reported in a manner designed to fairly present the financial position and results of operations of the various activities of the City of Newport Beach.

Further, the City of Newport Beach's financial statements have been audited by Conrad and Associates, LLP, a firm of licensed certified public accountants. The goal of the audit was to provide reasonable assurance that the financial statements of the City of Newport Beach for the fiscal year ended June 30, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based on the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Newport Beach's financial statements for the year ended June 30, 2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this

report. In order to conform to GAAP, the City was required to implement GASB Statement 34 that significantly changed the format and the required information presented in the annual report. The new model now requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of the Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Newport Beach MD&A can be found immediately following the report of the independent auditors and will provide further information regarding the format and content of this report.

PROFILE OF THE CITY

The City of Newport Beach is located in the coastal center of Orange County, in the heart of Southern California, with Los Angeles County to the north and San Diego County to the south. There are currently 34 cities within the County offering one of the finest climates in the United States. Orange County is now the second largest county in California trailing only Los Angeles and surpassing San Diego and is the sixth largest county in the nation. In fact, according to the 2000 Census, Orange County now has a greater number of residents than twenty of the Country's states including Montana, Mississippi, and New Hampshire.

The City of Newport Beach is one of Southern California's most scenic and dynamic communities. It surrounds Newport Bay, well known for its picturesque islands and one of the greatest natural yacht harbors in the world, accommodating over 9,000 boats of all types docked within its 21 square mile harbor area. This bay area and the ten miles of ocean beach offer outstanding fishing, swimming, surfing, and aquatic sports activities. The City has a permanent population of 79,392. During the summer months, the population grows to over 100,000 with 20,000 to 100,000 tourists daily. There are fine residential areas, modern shopping facilities, and a quality school system. A major campus of the University of California is located immediately adjacent to the City, and eight other colleges are within a 30-mile radius.

The City of Newport Beach was incorporated September 1, 1906. The current City Charter was adopted in 1954. The City operates under a Council-Manager form of government. Council members are elected by district but voted on by the population as a whole, and serve four-year staggered terms. The governing council consists of the mayor and six other members and is responsible for among other things, policy-making, passing local ordinances, adopting the budget, appointing committees and hiring the City Manager, City Attorney, and City Clerk. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day to day operations of the City, and for appointing heads of departments. The City of Newport Beach is a full service city providing its residents and visitors with the following functional services: general governance, legal, financial, information technology, and administrative management; police, fire, paramedic, lifeguard, and emergency medical

transport services; engineering, construction, and maintenance of public facilities, public streets, beaches, and parks; planning, zoning, and economic development services; building inspection, plan check, and code enforcement services; libraries and cultural and arts services; recreation and senior services; water, wastewater, rubbish disposal, and street light utility services. The City provides water and sewer service to most areas within City limits, but it does not provide gas, electrical, or other utility service. Public elementary and secondary education is provided by school districts, which are separate government entities.

The City's financial statements present the financial activity of the City of Newport Beach (the primary government) and the Newport Beach Public Facilities Corporation (a component unit of the City). The Corporation is blended into the City's financial statements because of its operational and financial relationship with the City. Even though it is a legally separate organization, City of Newport Beach elected officials have continuing accountability for fiscal matters of the Corporation. Additional information about the Newport Beach Public Facilities Corporation and the reporting entity in general can be found in footnote 1a of the notes to the financial statements.

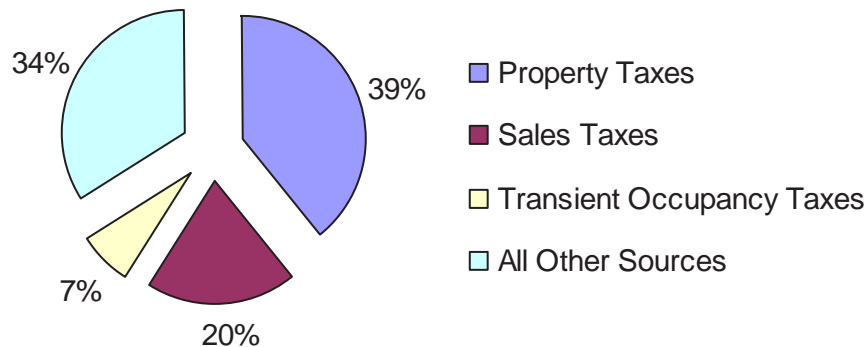
LOCAL ECONOMIC FACTORS

From 1950-2004, the population of the City increased from 12,120 to 79,392. As vacant land becomes increasingly scarce, sources for future projections show that population growth will continue, but at a slower rate. By the year 2020, Newport Beach will be home to an estimated 88,676 residents, an increase of 13.4% over a twenty-year period.

Newport Beach's physical setting encompasses about 25 square miles of land, of which approximately 75% is developed and 25% is undeveloped including the City's coastal beaches used for recreation and open space. The developed land is 70% residential and 30% non-residential.

This current land use mix produces General Fund revenues of approximately \$103.8 million. The top three revenue categories include Property Taxes, Sales Taxes, and Transient Occupancy Taxes (TOT). These account for 65% of General Fund revenues. The remaining 35% of revenue is generated by significantly smaller and very diverse sources.

General Fund Revenues



Property Taxes – Largely a residential community, residential property accounts for nearly 80% of all City Property Tax. Of the City’s 41,400 dwelling units, 60% of the housing is single-family units and 40% are multi-family units. The City receives, on average, approximately 16.5% of the property taxes generated within City limits. The remainder goes to the school district, the County, and other government entities. The affluent neighborhoods and relatively constant demand for scenic coastal property account for the stability of property taxes in the City. Recent home sale prices by Newport Beach zip code are as follows:

Median Home Sales* For the Month Ending 10/31/2004

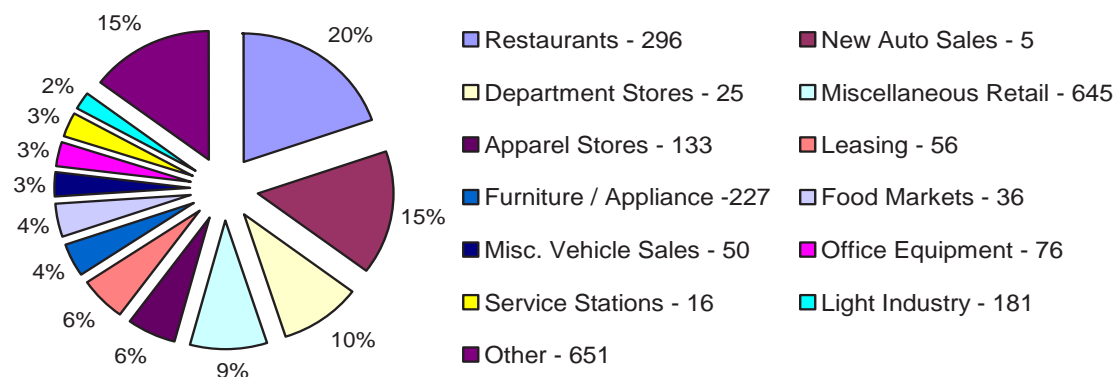
Zip Code	Median Sales Price	Percentage Change from 2003
92625	\$1,195,000	8.6%
92660	\$1,250,000	27.7%
92661	\$1,805,000	-2.4%
92662	\$2,545,000	61.6%
92663	\$1,170,000	98.0%
92657	\$2,103,500	87.0%

* Source: DataQuick Information Systems

Due to the demand and limited supply of coastal property, total assessed property values over a ten-year period, increased an average of 8.9% per annum.

Sales Taxes – The chart below demonstrates the diversity of the City Sales Tax revenue stream. The largest segment, “Restaurants,” accounts for only 20% of total sales taxes and is represented by 296 restaurants. The next largest segment, “New Auto Sales,” accounts for 15% of total sales taxes and is represented by five dealerships. The “All-Other,” categorization accounts for another 15% and is represented by 651 businesses. The City’s sales tax base is largely diverse and is not dependent on any one segment or any one individual merchant.

Sales Taxes by Business Segment



Transient Occupancy Taxes (TOT) – The TOT accrues to the City at a rate of 10% of room charges (with 18% of the collection going to the local Conference and Visitors Bureau). The City distinguishes its transient occupancy taxpayers in two broad property type categories, commercial and residential property. The commercial category is composed of nine hotels (Balboa Bay Club, Extended Stay America, Four Seasons Hotel, Hyatt Newporter Hotel, Marriott Ownership Resorts, Marriott Suites, Marriott Hotel & Tennis Club, Newport Hotel, and Sutton Place Hotel) and eleven inns and motels. The residential category is made up of some 581 vacation rentals. Together, they account for nearly \$8.0 million in annual TOT revenue as follows:

	Annual Revenues (In Millions)	Percent of Total
Commercial Property:		
Hotels	\$ 6.7	84%
Inns / Motels	\$ 0.4	5%
Residential Property:		
Vacation Rentals (581 Units)	\$ 0.9	11%
	<u>\$ 8.0</u>	<u>100%</u>

ECONOMIC OUTLOOK & FACTORS EFFECTING FISCAL PLANNING

U.S. Economy – National, state and local economies have experienced solid, broad based economic growth in the last year despite sharply rising fuel costs and uneven job growth. The gains have been fueled by strong performances in interest sensitive sectors such as housing, business capital investment, and continued strength in consumer spending.

Looking ahead, many economists expect economic growth to taper modestly in 2005 due to the rising energy costs, high household debt levels, and mild increases in interest rates. The outlook beyond 2005 becomes a bit uncertain as the dollar continues to decline amidst soaring federal trade and budget deficits. The combined effect of rising inflation due to higher energy costs, rising interest rates, high household debt levels, and a deflating dollar may be enough to significantly dampen consumer spending.

State of California – The State has had significant structural budget shortfalls since 2001-02 when revenues plunged following the recession and steep stock market decline. The annual gap between projected revenues and expenditures has been massive, reaching as much as twenty-five percent of General Fund spending. The 2004-05 budget grappled with a \$15 billion dollar deficit. While the State has addressed the annual shortfalls in each of the past three budgets, many of the budget-balancing actions involved limited-term solutions such as substantial borrowing, spending deferrals, accounting shifts, and diversions of local government tax revenues.

Although revenues are sharply up in 2004-05, the Legislative Analyst Office (LAO) predicts, “Even in the face of an expanding economy and strengthening revenues, it is unlikely that California will be able to simply grow its way out of this shortfall due to the size and persistence of the budget gap.” Because of the State’s reliance on limited-term solutions, it was clear when the 2004-05 budget was adopted that the State will continue to face substantial budget shortfalls in the future until real and ongoing solutions are adopted to close the budget gap. In approaching the 2005-06 budget, California’s policymakers face a deceptively difficult challenge.

Local Economy – Since geographic and socioeconomic conditions in Orange County and the City are very desirable, property values in Newport Beach are projected to remain high, and the City’s property tax revenues are anticipated to maintain a favorable trend for many years to come. The total Newport Beach assessed valuation for 2003-04 increased by nearly 9.7% and the ten year average is 8.9%.

The outlook for Sales Tax and Transient Occupancy Taxes are expected to remain solid but leveling a bit for 2004-05 generally following the expected national consumer spending trend. Sales tax collections through the first quarter of 2004-05 are tracking on target and hotel management is encouraged by relatively high occupancies.

Local Economic Concerns – For many years the City has been contending with financial uncertainty due to anticipated State “takeaways” and rising pension costs.

State Takeaways – History has shown that when the State is in trouble, it has a tendency to permanently dip into local governments’ pockets. One example of this has been the 13 year-old practice of shifting local property taxes to a special Educational Revenue Augmentation Fund (ERAF) in each county to be distributed to schools, allowing the State’s General Fund responsibility for school funding to be reduced and the monies spent elsewhere in the State budget. In Newport Beach, ERAF versions I & II have cost taxpayers nearly \$50 million dollars in lost property tax dollars that would have otherwise been used to fund City operations and capital improvements.

For the coming years, the State has introduced three new budget balancing actions as part of SB 1096 that heavily impact local governments. The three elements are commonly referred to as “ERAF III”, the “Triple Flip” and the “VLF Swap.”

ERAF III – for Fiscal Years 2004-05 and 2005-06 only, the City will be losing an additional \$2,264,302 of property taxes to the State, made up by a formulae of 1/3 property tax, 1/3 sales tax, and 1/3 vehicle license fees.

TRIPLE FLIP – Beginning with the September 2004, sales tax payment (received in October 2004) 25% of the City’s sales tax will be shifted to the State as a dedicated repayment source for the State’s economic recovery bonds. The shift is based on the actual 2003-04 sales tax allocation to the City with a statewide estimated growth rate applied. This shift will be made up, dollar for dollar, with an allocation from the County ERAF account with two payments, due on or before January 31st and May 1st of each fiscal year with any true up payments due in January, 18 months after the beginning of the fiscal year. The Triple Flip will be in effect until the State recovery bonds are paid in full.

VLF SWAP – Beginning in January 2005, the Vehicle License Fee is permanently reduced to 0.65% from 2.0% of the vehicle’s fair market value. Any loss to cities by this rate reduction will be made up, dollar for dollar, with an allocation from the County’s ERAF account with two payments, due on or before January 31st and May 31st of each year. This allocation will grow by any corresponding growth in the City’s secured property tax growth.

Since only ERAF III results in a real loss of funding for the City for fiscal years 2004-05 and 2005-06, the fiscal effects of the Triple Flip and VLF Swap is mostly a cash flow issue - since we will now receive payments for both of these items twice a year vs. monthly. This should have little effect on the City since our current portfolio investment rates are so low. It will cause accounting issues, i.e., property tax in lieu of sales tax, and property tax in lieu of vehicle license fees must be recorded. However, it will make tracking of “real” property tax revenues much more difficult.

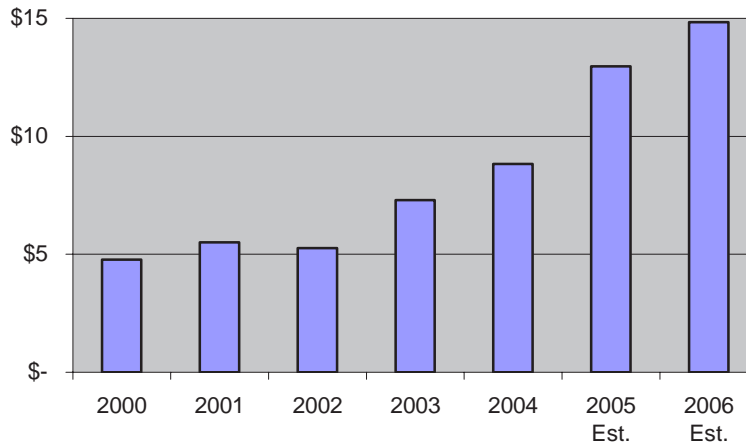
Defined Benefit Pension Costs – The City contracts with the California Public Employees' Retirement System (PERS) for certain defined pension benefits. The City's contributions to the plan include a fixed employer paid member contribution and an actuarially determined employer contribution that fluctuates each year based on an annual actuarial plan valuation. This variable rate employer contribution includes the normal cost of providing the contracted benefits plus or minus an amortization of plan changes and net actuarial gains and losses since the last valuation period. It is the City's policy to make contributions to the plan equaling at least 100% of the actuarially required contribution (annual pension cost).

Benefit revisions in recent years have and will impact future PERS rates. California Senate Bill 90 increased the maximum benefit level for safety employees from 85% to 90% of total compensation. Other contract benefit changes include the miscellaneous employees' benefit formula increase from 2% at age 60 to 2% at age 55 and the police safety employees benefit formula increase from 2% at age 50 to 3% at age 50. Newport Beach fire and marine safety employees have a 3% at age 55 benefit formula. A portion of the accrued unfunded benefits related to all prior covered service credit will be paid from available pension assets while the remaining obligation will be amortized and paid in conjunction with the normal cost employer rate.

More significant than the benefit changes have been the pension asset investment losses caused by the downturn in the equities markets between 2000 and 2002. Although PERS has a fifteen-year average compounded return on investments of 9.38%, recent actuarial investment losses have a significant impact on actuarially required employer contributions. Until recently PERS actuaries assumed an annual investment return of 8.25%. The actual investment returns for fiscal years ended 2001, 2002, and 2003 were -7.2%, -5.9%, and 3.9% respectively. This produced a three-year actuarial loss of -15.45%, -14.15%, and -4.35% respectively or a three-year cumulative actuarial loss of -33.95%. Because of asset smoothing techniques, only a portion of the total loss for these years has been reflected in employer contribution rates through 2005-06. The balance of the loss will have an adverse impact on employer contribution rates in subsequent years. The 2004 investment returns rebounded to achieve a 16.57% market value rate of return. However, due to the same asset smoothing technique used on actuarial losses, the asset gain will be spread over many years. The net result is that the City can expect the employer contribution rates to continue to rise for the next several years.

To put things in perspective, the chart below represents the total PERS cost of both the Miscellaneous and Safety pensions for the past five years as well as an estimate of the next two years.

**Total Actual and Estimated Contributions to
Cal PERS Retirement Plan
(In Millions)**



For more information on the City's pension plan and funding levels, see footnote 10 in the notes to the financial statements.

OTHER FACTORS EFFECTING FINANCIAL CONDITION

Post Employment Health Plan – The City of Newport Beach provides post-employment health benefits for certain retirees. At the end of the current fiscal year, there were 312 retirees enrolled in City's health plans out of the 589 retirees eligible to receive this benefit, which is funded on a pay-as-you-go basis. Current GAAP precludes agencies from recognizing a liability for the promise to provide current employees this future benefit. None-the-less, the City has begun a forced savings plan to accumulate sufficient resources to fund the current and future expected costs of the plan plus an amortization of expected future benefits previously accrued. Additional information on the City of Newport Beach post-employment benefits can be found in footnote 11 in the notes to the financial statements.

Employee Bargaining Agreements – Current employee bargaining unit agreements provide for salary and benefit increases ranging from 2% to 4% of salary and benefits. All safety employee agreements are due to expire in December, 2004. All miscellaneous agreements will expire in June, 2005. There will be many factors considered during negotiations to renew these agreements.

Summary of Economic Status – Even though the local economy remains solid, the rippling effect of the past economic recession is still very serious. As previously discussed, the State's continued budget crisis, rapidly increasing pension costs, and economic uncertainties may have a profound impact on local governments for many years to come.

Due to a conservative fiscal policy and strong local economic vitality, the City has been able to weather the foregoing financial uncertainties thus far with little impact. Our number one revenue source, property tax, has experienced strong growth for the past several years due to the annexation of Newport Coast, the strong real estate market in Orange County, and low interest rates especially as Pre-Proposition 13 homes are sold and reassessed at today's market prices. In addition, the City has taken a conservative approach to forecasting revenues, often assuming a "worst case scenario" of State actions.

Due to the uncertainty of State actions and anticipating the increase in pension costs, the City has chosen, for the past three years, to hold the operating budget flat, defer capital projects where feasible, and shore up reserves. This fiscal conservatism has helped stabilize the City's finances and as a result, we are able to maintain our course without cuts in service. The City's current fiscal posture is relatively strong and we are as prepared as we can be for economic uncertainties of this magnitude. Over the past several years the City has funded a pension reserve at \$9.0 million to help amortize the rapidly rising pension costs. To date, we have not had to draw on that reserve to fund our pension obligations. As of June 30, 2004, the City's General Fund Contingency and Stabilization reserves were fully funded at nearly \$14.3 million. In addition, the City has designated nearly \$5.7 million for planned capital projects. A lot can go wrong in the coming years, but the City has positioned itself well to work through this crisis with the intent to limit the impact on public services as much as possible.

STEWARDSHIP

Budget – The annual budget serves as the foundation for the City of Newport Beach's financial planning and control. The Administrative Services Department, with City Manager approval, develops budget guidelines and appropriation limits for each department every year in January. The departments then submit revenue and expenditure appropriation requests which are summarized by the Administrative Services Department and presented to the City Manager for review. The City Manager then presents a proposed budget document to the City Council. The City Council holds a budget hearing and adopts a budget on or before June 30, the close of the City's fiscal year.

Cash Management – It is the City's policy to invest all temporarily idle short-term funds and longer-term reserves in a manner that will maximize return without sacrificing security or jeopardizing liquidity requirements. Idle funds are invested in accordance with the Government Code and a formal Investment Policy approved by the City Council. The policy, which is reviewed and updated annually, allows investments in a variety of specific instruments, as well as certain state, county, and private sector investment pools and asset management services. Certificates of deposit, demand deposits, bankers acceptances, U.S. Government and agency securities, commercial paper, repurchase agreements, and the Local Agency Investment Fund are examples.

The City's current investment strategy is to normally place most of the funds with five private sector investment management firms. Each of these intermediaries is guided by and constrained to an investment program at least as restrictive as the policy governing the City's direct investments. Regular reporting, both in writing and by personal presentation, is required. Additionally, with regard to the private sector firms, well-established and highly reputable third party custodians hold all cash or securities managed by them on the City's behalf. Smaller, more liquid portions of the portfolio are invested directly by City staff or placed with the State Pool (LAIF). For more information on the City's investment policy, see footnote 4 in the notes to the financial statements.

Risk Management – The City maintains a risk management program, which is a combination of self-insured retention, excess insurance coverage, and written policies regarding department safety procedures. The City is also insured for environmental liabilities associated with waste disposal. As part of the City's Risk Management program, resources are aggressively set aside in an Internal Service Fund (Insurance Reserve Fund) to meet current and probable losses. All claims are investigated, valued, reserved, and defended and/or settled in accordance with generally accepted industry practices. Additional information on the City of Newport Beach's risk management activity can be found in footnote 8 in the notes to the financial statements.

OTHER INFORMATION

Awards – The City has prepared a comprehensive annual financial report for twelve straight years. The City has been fortunate to receive state and national awards for excellence in financial reporting each of those years.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Newport Beach for its comprehensive annual financial report for the fiscal year ended June 30, 2003. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

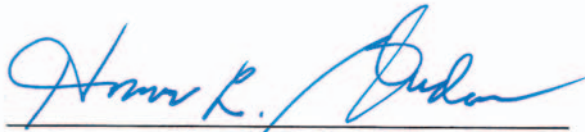
A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to conform to the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

The California Society of Municipal Finance Officers (CSMFO) is a state organization which sponsors extensive training and emphasizes high standards in all aspects of municipal finance operations, including financial reporting. As a result of last year's report, the City of Newport Beach is fortunate to have remained among the ranks of California cities that have met the rigorous standards of financial reporting required of

California cities that have met the rigorous standards of financial reporting required of recipients of the CSMFO Outstanding Financial Reporting Award. We will be submitting the report to CSMFO for consideration again this year as well.

ACKNOWLEDGMENTS

Preparation of this report was accomplished through the efficient and dedicated services of virtually everyone in the City's Accounting Division and Print Shop. In addition, members of the Administrative Services Department would like to thank the Mayor and City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner. We would also like to thank our auditors, CONRAD AND ASSOCIATES, LLP for their time and assistance in the preparation of the report. This report was completely prepared and published by City employees.



Homer L. Bludau
City Manager



Dennis C. Danner
Administrative Services Director

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Newport Beach,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

California Society of Municipal Finance Officers

Certificate of Award

Outstanding Financial Reporting 2002-2003

Presented to the

City of Newport Beach



*This certificate is issued in recognition of meeting professional standards and criteria in reporting
which reflect a high level of quality in the annual financial statements
and in the underlying accounting system from which the reports were prepared.*

March 1, 2004

Bret M. Plimlee

Chair, Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management

NEWPORT BEACH CITY OFFICIALS

City Council



Tod W. Ridgeway
Mayor



Steven Rosansky
Council Member



Garold B. Adams
Mayor Pro Tem



Don Webb
Council Member



Steve Bromberg
Council Member



Richard A. Nichols
Council Member



John Heffernan
Council Member

Principal Administrative Officers



LaVonne M. Harkless
City Clerk

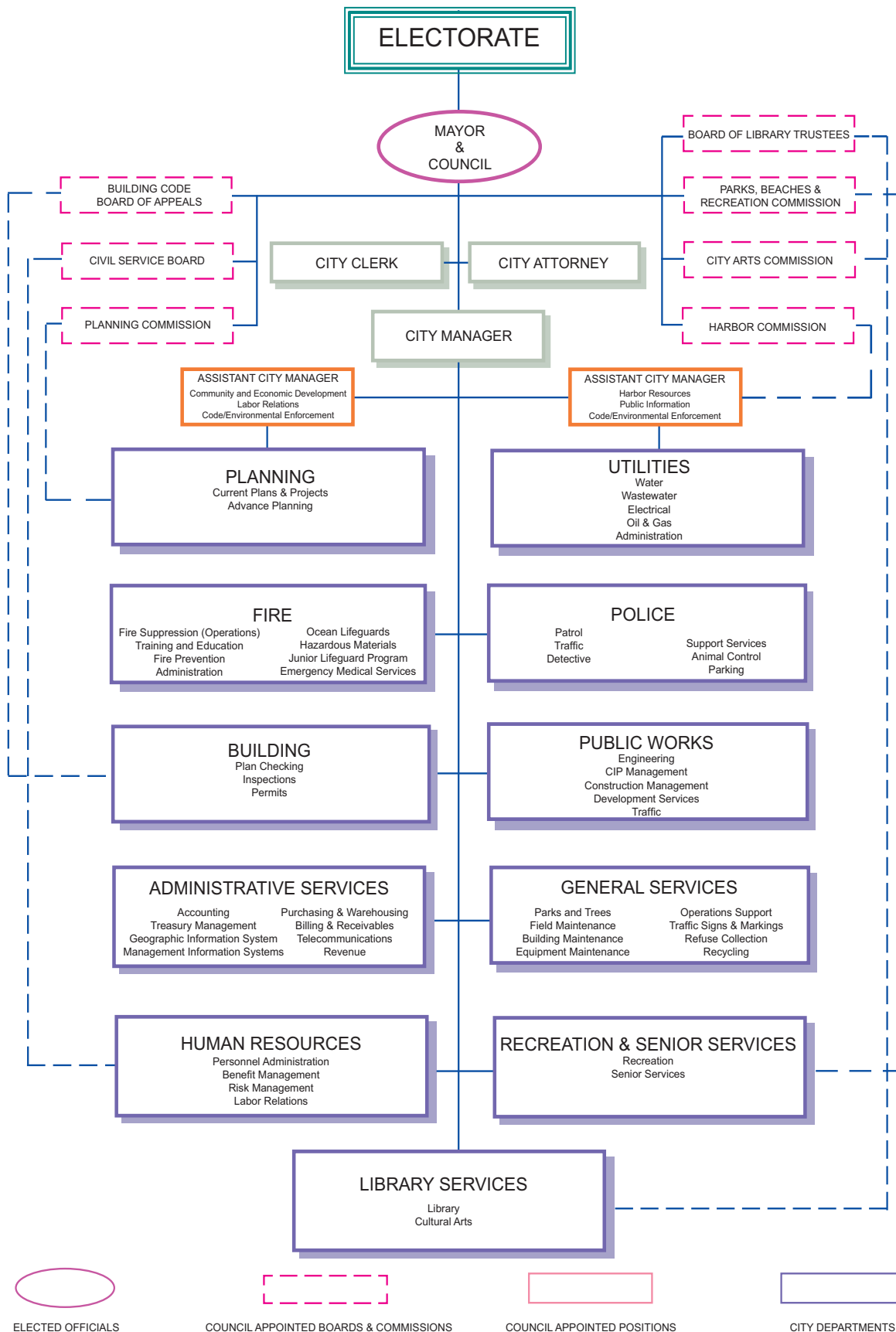


Homer L. Bludau
City Manager



Robert H. Burnham
City Attorney

Sharon Wood Assistant City Manager/Director of Community & Economic Development
 Dave Kiff Assistant City Manager
 Dennis C. Danner Administrative Services Director/Treasurer
 Bob McDonell Chief of Police
 Tim Riley Fire Chief
 David E. Niederhaus General Services Director
 Marie Knight Recreation & Senior Services Director
 Patricia L. Temple Planning Director
 Jay Elbettar Building Director
 Steve Badum Public Works Director
 Diana Axley Human Resources Director
 Eldon Davidson Utilities Director
 Linda Katsouleas Library Services Director



Fiscal Year 2003-2004

April 16, 2003

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Financial Section

Financial Section



City Council
City of Newport Beach
Newport Beach, California

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newport Beach, California, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the management of the City of Newport Beach. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newport Beach, California, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, of the City of Newport Beach, California and the respective budgetary comparison information for the general fund and major special revenue funds of the City for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying table of contents as *management's discussion and analysis* are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Newport Beach's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

City Council
City of Newport Beach
Newport Beach, California

In accordance with *Government Auditing Standards*, we have also issued a report dated November 12, 2004 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Comand and Associates, L.L.P.

November 12, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Newport Beach's Comprehensive Annual Financial Report (CAFR) presents management's discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2004. This analysis should be read in conjunction with the Transmittal Letter at the front of this report and the accompanying Basic Financial Statements.

FINANCIAL HIGHLIGHTS

Long-term Economic Resource (Government-wide) Focus – Economic resources are differentiated from financial resources in that the economic measurement focus measures changes in net assets as soon as the event occurs regardless of the timing of related cash flows. Therefore, this measurement focus includes both current spendable resources and fixed non-spendable assets, and long-term claims against these assets. The resulting net asset utilizing this measurement focus provides one measure of the City's overall long-term financial condition.

- The assets of the City exceeded liabilities at the close of the most recent fiscal year by \$1.721 billion. The vast majority of this figure is represented by illiquid capital assets including land and infrastructure. Capital assets net of accumulated depreciation and any related debt totaled \$1.607 billion, while the remaining balance of net assets totaled \$113.8 million. Of this amount, \$68.3 million represents unrestricted net assets that may be used to meet the City's ongoing obligations to citizens and creditors for both governmental and business-type activities.
- The City's total net assets increased \$101.9 million (6.3%) to \$1.721 billion as a result of current year activities. The increase is attributable to a \$102.7 million special item, capital contribution related to the annexation two previously unincorporated areas known as East Santa Ana Heights and Bay Knolls. Excluding the special item, net assets decreased \$0.8 million.
- The City's total debt decreased by \$4.0 million during the current fiscal year from \$58.2 million to \$54.2 million. The decrease is the net result of regular debt service payments, a net increase in the worker's comp payable, and net decreases in claims and judgments payable and compensated absences.

Short-term Financial Resource (Fund) Focus – The Financial resources focus measures inflows of current spendable assets. The resulting net difference between current financial assets and current financial liabilities otherwise known as fund balance (or net working capital in the private sector) is a measure the City's ability to finance activities in the near term.

- At the close of the current fiscal year, the City's Governmental Funds reported a combined ending fund balance of \$83.5 million, an increase of \$9.0 million. Approximately \$72 million is unreserved fund balance available to fund current obligations at the City Council's discretion. Of the \$72 million unreserved fund balance, City Council has designated \$14.3 for stabilization and unspecified contingencies while

the remaining \$57.7 million is designated for capital projects, appropriations, and other special purposes.

- The General Fund reported an increase of \$5.0 million in fund balance after transferring \$16.4 million to other funds. Of this transfer, \$13.1 million represented a routine transfer to subsidize the operations of the Tide and Submerged Land Fund, while \$2.0 million represented a nonrecurring transfer to bolster certain Internal Service fund operations.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$37.7 million, or 42% of total General Fund expenditures. Although unreserved and available to fund current obligations, 100% of this balance is designated for contingencies, stabilization, capital projects, appropriations, and other special purposes.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the comprehensive annual financial report contains the following information: *Independent Auditor's Report*, *Management's Discussion and Analysis* (this section), the *Basic Financial Statements*, and the *Supplementary Information* section, an optional section that presents combining and budgetary schedules for individual non-major funds. The *Basic Financial Statements* are comprised of three components: 1) *Government-wide Financial Statements*, 2) *Fund Financial Statements* and, 3) *Notes to the Financial Statements*. The Management's Discussion and Analysis is intended to be an introduction to the Basic Financial Statements.

BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements – The Government-wide Financial Statements are intended to provide a “Big Picture” view of the City as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the City's assets (including non-spendable assets like streets, roads, and land rights) and liabilities (including long-term liabilities that may be paid over twenty or so more years). All of the current year revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Government-wide Financial Statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – is one way to measure the City's financial health, or position. Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the City, one should also consider additional non-financial factors such as changes in the City's property tax base and the condition of the City's roads.

The Government-wide Financial Statements of the City are divided into two categories:

Governmental Activities – This statement depicts the extent to which programs are self-supporting and the net amount provided by property taxes and other general revenues. Most of the City's basic services are included in this category, such as the public safety, public works, community development and community services

departments, and general administration. Taxes and other general revenues finance most of these activities.

Business-type Activities – The City accounts for its Water and Wastewater utilities as business enterprises. The City charges fees to customers to recover the cost of supplying the Water and Wastewater services it provides.

Fund Financial Statements – Funds are accounting devices that the City uses to track and control resources intended for specific purposes. The Fund Financial Statements provide more detailed information about the City's most significant funds (major funds) but not the City as a whole. Some funds are required by State and Federal law or by bond covenants. Other funds are utilized simply to control and manage resources intended for particular purposes.

The City utilizes three broad categories of funds:

Governmental Funds – Governmental Funds are used to account for essentially the same functions reported as Governmental Activities in the Government-wide Financial Statements. However, unlike the Government-wide Financial Statements, Governmental Fund Financial Statements utilize the financial resources measurement focus and thus concentrate on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Consequently, the Governmental Fund Financial Statements provide a detailed short-term view that helps a reader determine whether there are more or fewer financial resources that can be spent in the near future to finance City programs. Also included in the Governmental Funds are Permanent Funds. These funds are used to report resources that are legally restricted for the extent that only earnings, not principal, may be used for purposes that support City programs.

Proprietary Funds – Services for which the City charges customers a fee are generally reported in Proprietary Funds (Enterprise Funds and Internal Service Funds). Like the Government-wide Financial Statements, these funds provide both long and short-term financial information utilizing the economic resources measurement focus. The City's Enterprise Funds (Water and Wastewater Funds) are individual funds represented in the combined presentation of Business-type Activities in the Government-wide Financial Statements. The individual fund presentation provides more detailed information about each business segment, its operating statements, and statements of cash flow. The City also uses Internal Service Funds that are utilized to report and allocate the cost of certain centrally managed and operated activities (e.g. fleet maintenance, risk management, etc.). Because the Internal Service Funds primarily serve the government, they are reported with Governmental Activities rather than the Business-type Activities in the Government-wide Financial Statements.

Fiduciary Funds – The City utilizes Fiduciary Funds to account for assets held by the City in a trustee capacity, or as an agent for other governmental entities, private organizations, or individuals. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the City's Government-wide Financial Statements because the City cannot use these assets to finance its operations.

Notes to the Financial Statements – The financial statements also include the Notes to the Financial Statements that provide important narrative details about the information contained in the financial statements. Information contained in the Notes to the Financial Statements is critical to a reader's full understanding of the Government-wide and Fund Financial Statements.

Supplementary Information – In addition to the required elements of the Basic Financial Statements, we have also included a Supplementary Information section, which includes budgetary and combining schedules that provide additional details about the City's non-major Governmental Funds, Internal Service Funds, and Fiduciary Funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets – Net assets may serve over time as a useful indicator of a government's financial position. The City's combined net assets for the year ended June 30, 2004, as shown in Table 1, were \$1.721 billion.

Table 1
Net Assets
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2003	2004	2003	2004	2003	2004
Current and other assets	\$ 124,006	\$ 128,078	\$ 26,763	\$ 25,822	\$ 150,770	\$ 153,900
Capital assets	1,441,059	1,538,211	101,677	101,316	1,542,736	1,639,528
Total assets	1,565,065	1,666,290	128,441	127,138	1,693,506	1,793,428
Long-term liabilities outstanding	48,437	45,615	9,765	8,535	58,202	54,150
Other liabilities	17,283	15,756	2,536	2,903	19,818	18,659
Total liabilities	65,720	61,372	12,301	11,438	78,020	72,809
Net assets						
Invested in capital assets, net of debt	1,412,372	1,512,651	91,912	94,207	1,504,285	1,606,858
Restricted	37,651	45,494	-	-	37,651	45,494
Unrestricted	49,322	46,773	24,228	21,494	73,550	68,266
Total net assets, as restated	\$ 1,499,345	\$ 1,604,918	\$ 116,140	\$ 115,700	\$ 1,615,485	\$ 1,720,618

Invested in Capital Assets – By far the largest component of net assets, \$1.607 billion (93.4%), reflects the City's investment in capital assets (e.g., land, buildings, infrastructure, and equipment) less accumulated depreciation and any related outstanding debt used to acquire those assets. The City's capital assets do not represent a financial resource and consequently are not readily available for funding current obligations.

Restricted Assets – An additional portion of the City's net assets, \$45.5 million (2.7%), represents resources that are subject to external restrictions on how they may be used.

Unrestricted Assets – The remaining balance of unrestricted net assets, \$68.3 million (3.9%) may be used to meet the City's ongoing obligations to citizens and creditors.

Overall the City's net assets increased \$101.9 million during the current fiscal year. This increase is attributable to a \$102.7 million special item, capital contribution related to the annexation of two previously unincorporated areas known as East Santa Ana Heights and Bay Knolls (see Note (16) in the Notes to the Financial Statements). Excluding this special item, net assets decreased \$0.8 million in the current year. The key financial activity for the year ended June 30, 2004 is as follows:

Table 2
Changes in Net Assets
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2003	2004	2003	2004	2003	2004
Revenues:						
Program Revenues:						
Charges for services	\$ 29,683	\$ 31,812	\$ 19,258	\$ 21,312	\$ 48,941	\$ 53,124
Operating grants and capital contributions	8,751	10,681	-	-	8,751	10,681
Capital grants and contributions	4,147	675	-	-	4,147	675
General Revenues:						
Taxes:						
Property taxes	39,475	43,632	-	-	39,475	43,632
Sales tax	20,134	21,844	-	-	20,134	21,844
Transient occupancy taxes	8,055	8,045	-	-	8,055	8,045
Other taxes	9,524	10,049	-	-	9,524	10,049
Investment related income	2,430	224	946	116	3,376	340
Property income	-	-	30	30	30	30
Miscellaneous	1,426	215	-	-	1,426	215
Share of joint venture net income	389	147	-	-	389	147
Special Item:						
Capital contributions	17,837	102,713	-	215	17,837	102,929
Total revenues	141,850	230,036	20,234	21,673	162,085	251,709
Expenses:						
General government	10,800	11,428	-	-	10,800	11,428
Public safety	56,522	58,179	-	-	56,522	58,179
Public works	32,089	38,128	-	-	32,089	38,128
Community development	5,782	6,230	-	-	5,782	6,230
Community services	10,404	14,742	-	-	10,404	14,742
Interest	674	542	-	-	674	542
Water	-	-	14,540	17,185	14,540	17,185
Wastewater	-	-	3,115	3,364	3,115	3,364
Total expenses	116,271	129,248	17,655	20,549	133,926	149,797
Increases in net assets before transfers	25,579	100,788	2,579	1,124	28,158	101,912
Transfers	33	58	(33)	(58)	-	-
Increase in net assets	25,612	100,846	2,546	1,066	28,158	101,912
Net assets, beginning, as restated	1,473,733	1,504,072	113,594	114,634	1,587,327	1,618,706
Net assets, ending	\$ 1,499,345	\$ 1,604,918	\$ 116,140	\$ 115,700	\$ 1,615,485	\$ 1,720,618

Governmental Activities – The cost of all governmental activities in the current fiscal year was \$129.2 million. As shown in the statement of activities, \$32.4 million of the costs was paid by those who directly benefited from the programs, \$11.4 million was financed by contributions and grants received from other governmental organizations, developers, and property owners for both capital and operating activities, and \$86 million was subsidized through general City revenues.

Net assets for governmental activities of the City at the beginning of the year were \$1.5 billion, and increased by \$100.8 million by the end of the year accounting for 99% of the total growth of net asset for the City as a whole. The growth was attributable to a special item, capital contribution discussed above.

The City is a full service city providing residents and visitors with the following functional services:

General Government is comprised of six departments (City Council, City Clerk, City Manager, City Attorney, Human Resources, and Administrative Services) providing general governance, executive management, legal services, records management, risk management, finance, accounting, and information technology services.

Public Safety is comprised of two departments (Police and Fire) providing general law enforcement, fire suppression and prevention services, paramedic and medical transport services, disaster preparedness, and ocean lifeguard services.

Public Works is comprised of two departments (Public Works and General Services) providing, engineering, construction and maintenance of public streets, highways, buildings, beaches, parks, and related infrastructure; as well as traffic engineering, street lighting, and trash disposal services.

Community Development is comprised of two departments (Planning and Building) that provide planning and zoning services; economic development services, and building plan check and code enforcement services.

Community Services is comprised of two departments (Libraries & Arts and Recreation & Senior Services) providing library services, cultural and arts programs, recreation services, and senior social and transportation services.

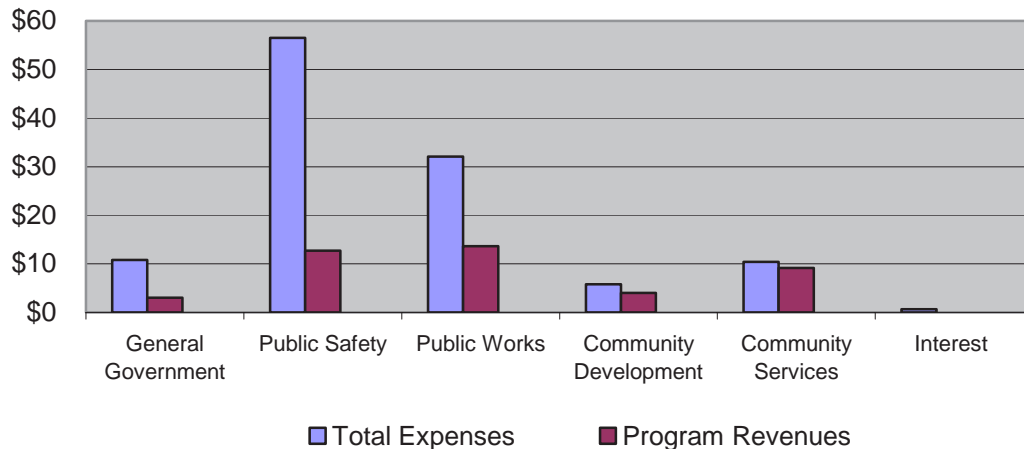
Business Enterprise Operations are overseen by one department (Utilities) providing water and wastewater services.

Each programs' net cost (total cost less revenues generated by the activities) is presented below. The net cost shows the extent to which the City's general taxes support each of the City's programs.

Table 3
Governmental Activities
(in thousands)

	2003		2004	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
General government	\$ 10,800	\$ (7,791)	\$ 11,428	\$ (9,301)
Public safety	56,522	(43,808)	58,179	(41,030)
Public works	32,089	(18,426)	38,128	(26,161)
Community development	5,782	(1,759)	6,230	(1,034)
Community services	10,404	(1,232)	14,742	(7,451)
Interest	674	(674)	542	(542)
	<u>\$ 116,271</u>	<u>\$ (73,691)</u>	<u>\$ 129,248</u>	<u>\$ (85,519)</u>

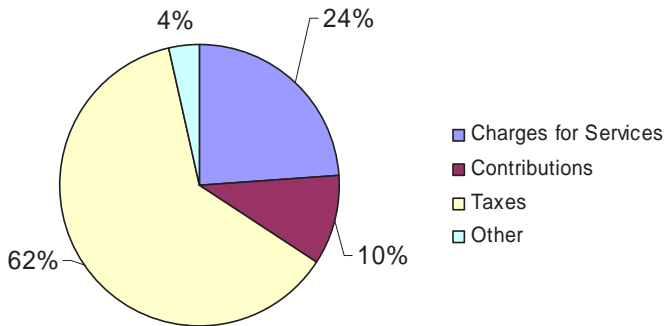
Table 4
Program Expenses and Revenue - Governmental Activities
Year Ended June 30, 2004
(in Millions)



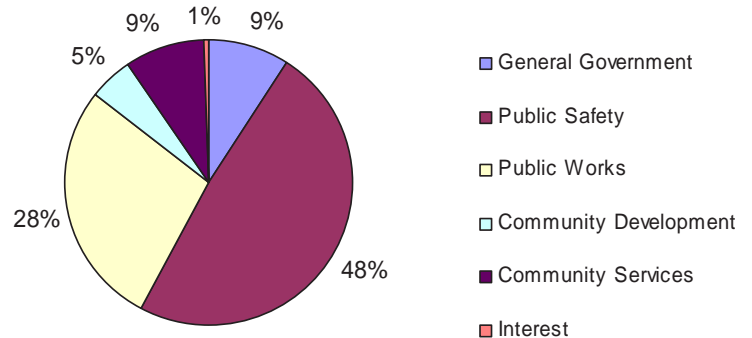
Of the \$86 million in general revenues that financed the Governmental Activities, 52% was utilized for Public Safety, 22% was utilized for Public Works, and the remaining 26% supplemented Community Development, Community Services, General Government, and Interest.

Table 5
Governmental Activities
Year Ended June 30, 2004

**Sources of Revenue
(Excluding Special Item)**



Functional Expenses



Major Governmental Activities in the current fiscal year included the following:

Revenues:

- Excluding transfers and the special item, total program and general revenues in the current year amounted to \$127.3 million. Of this amount, 34% represents program revenue, 34% is from property taxes, and 24% is from sales taxes and transient occupancy taxes. The remaining revenue sources of 8% are represented by significantly smaller sources and are broadly diverse.
- As mentioned above, the City reported a special item related to the capital contribution of right-of-way, pavement, sidewalks, and other infrastructure. The contribution resulted in a one time infusion of \$102.7 million in the statement of activities, and increased governmental land and infrastructure assets.
- Excluding the transfers and special items, total program and general revenues are up \$3.3 million. The net increase over prior year is a combination of a few key factors:
 - At nearly \$44 million per year, property taxes represent the largest individual recurring source of revenue for the City. They are up \$4.1 million or 10.4% in the current year. Over the past ten years, property taxes revenues have increased an average of 8.9% per year. The current increase is above the average due to recent annexations and continued new construction activity in the Newport Coast area of the City.

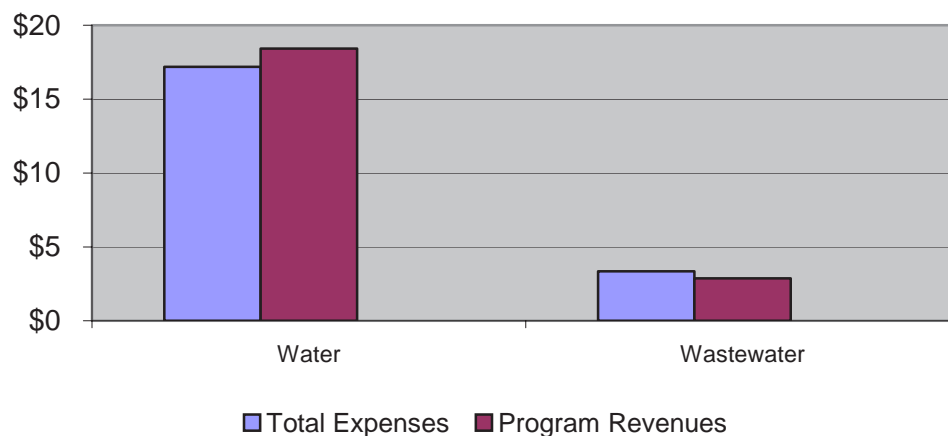
- At nearly \$21.8 and \$8.0 million respectively, sales taxes and transient occupancy taxes represent the number two and three top individual revenue sources for the City. Sales taxes are up \$1.7 million (8.5%) from the prior year while transient occupancy taxes remained relatively flat.
- Charges for services were up \$2.7 million from the previous year from the net effect of increases and decreases within the various functions of the City. The most significant swings within this account related to increases in Public Safety and General Government charges for services and minor decreases in the other functions.
- Operating and capital grants were down \$1.5 million over the prior year primarily due to the unusually high activity in the prior year. Nearly \$1.1 million of donations were received for the Mariners Library Project alone in the prior year.
- Very low interest rates in the fixed income equities market combined with a changing interest rate environment had a combined negative impact on investment income. Investment income combined with the net decrease in the fair value of investments resulted in a \$2.2 million decrease in revenues from the prior year.
- All other general tax revenues were up a net \$0.5 million (less than 1%) while all other revenues were down approximately \$1.4 million.

Expenses:

- In the current year, expenses for all governmental activities are \$129.2 million. Overall, the amount is up \$12.9 million (11%) from the prior year which can be attributed to the following factors:
 - General Government expenses are up \$.6 million (5.8%) when compared to the prior year. This increase represents one time expenses related to the recent annexations.
 - Public Safety expenses are up \$3.9 million (7%) in the current year, reflecting the third full year of the City providing services to the newly annexed areas of town. In addition to the increase in safety services provided, safety PERS rates increased from an annual average of 12% in 2002-2003 to 17.5% in 2003-2004.
 - Public works expenditures were up \$6 million (18.9%) which include costs associated with repair and maintenance of City streets, infrastructure and facilities.
 - Community Services' expenses went up \$4.4 million (41.7%) in the current year, due to a large one-time scholarship distribution to UCI, various water quality studies, and other miscellaneous projects.

Business-type Activities – Business-type activities are financed primarily by fees charged to external parties for goods and services. The City's two business-type activities, water and wastewater utilities, produced a \$1.0 million increase in net assets. The increase in net assets was comprised of operating income of \$1.9 million from water activities and offsetting non-operating expenses of \$1.0 million including interest expense of \$367,743 and a loss on removal of assets totaling \$789,807.

Table 6
Program Expense & Revenue - Business-type Activities
Year Ended June 30, 2004
(in Millions)



Major Business-type Activities in the current fiscal year included the following:

Water

Of the \$17.2 million in water related expenses, \$7.2 million (42%) is for the purchase of water, \$3.4 million (19.6%) is for maintenance, supplies and depreciation of the water system, \$3.2 million (19%) covers employee related costs, and the remaining \$3.4 million (19.4%) is collectively attributable to the amount paid to internal services funds, interest related to debt service payments, loss on removal of fixed assets, and other miscellaneous expenses.

Wastewater

Of the \$3.4 million in wastewater related expenses, \$1.4 million (41%) is maintenance, supplies and depreciation of the wastewater system, \$1 million (32%) is employee related costs, \$466,152 is loss incurred on removal of fixed assets, and the remaining 13% is attributable to other individually insignificant expenses.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to highlight available financial resources and to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds – Utilizing the financial resources measurement focus, the City's Governmental Funds provide information on near-term inflows and outflows, and balances of spendable resources. This information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Fund Balance – As of the end of the current fiscal year, the City's Governmental Funds reported combined fund balances of \$83.5 million, an increase of \$9.0 million from the prior year. The General Fund represented \$44.4 million or 53.2% of the combined fund balances of the Governmental Funds.

Reserved Fund Balance – The City has \$11.6 million in fund balance that is reserved to indicate it is not available to finance new activities because it has already been committed: 1) to fulfill contractual obligations and purchase orders (\$7.1 million), 2) as a debt service reserve consistent with bond covenants (\$566,157), 3) as a reserve for affordable housing (\$2.7 million), and 4) for a variety of other restrictions that make these resources unavailable for spending (\$1.3 million).

Unreserved Fund Balance – The remaining \$71.9 million is classified as unreserved fund balance, which is available for spending at the City's discretion.

Major activities in the Governmental Funds in the current fiscal year included the following:

- The General Fund ended the year with a \$44.4 million fund balance, a net increase of \$8.1 million. Excluding net transfers out of \$16.4 million, excess revenues over expenditures totaled \$21.1 million. See Note (13) in the Notes to the Financial Statements for more information regarding interfund transfers.
- The activities of the Tide and Submerged Land Fund are routinely subsidized by the General Fund. At year end, the General Fund transferred sufficient resources (\$13.2 million) to cover the Tide and Submerged Land Fund's deficit and other outstanding commitments and designations of fund balance. The Tide and Submerged Land Fund ended the current year with \$460,536 in fund balance.
- The Newport Coast Annexation Fund ended the year with a \$17.8 million fund balance. The net increase of \$3.9 million in fund balance in the current year is a combination of \$5.0 million received from the Irvine Ranch Water District as per our agreement and the regularly scheduled debt service payments.

Proprietary Funds – The City's Proprietary Funds (Enterprise and Internal Service Funds) presented in the Fund Financial Statements section basically provide the same type of information in the Government-wide Financial Statements, but include individual segment information.

Major activities in the Enterprise Funds in the current fiscal year included the following:

- Net assets in the Water Fund grew by \$1.4 million and decreased in the Wastewater Fund by \$346,505. Unrestricted net assets at year-end were \$17.9 million for the Water Fund, and \$3.5 million in the Wastewater Fund.
- Other factors concerning the finances of these two funds have already been addressed above in the discussion of the City's business-type activities.

Major activities in the Internal Service Funds in the current fiscal year included the following:

- Net assets at fiscal year end for the Internal Service Funds was \$6.8 million. Included in this amount is an accumulated deficit in the Insurance Reserve Fund and the Compensated Absence Fund in the amounts of \$3.4 million and \$6.2 million, respectively.
- Net assets increased \$2.1 million in the current year. The increase is a combination of increases in the various Internal Service Funds; namely, \$836,418 in the Insurance Reserve Fund, \$611,843 in the Compensated Absence Fund, \$440,409 in Retiree Insurance, all resulting from a decrease in premium rates. Also a contributing factor, the Equipment Maintenance Fund contributed \$231,544 of the increase in current year net assets through user fees charged to departments related to the maintenance and replacement of the City's rolling stock fleet.

GENERAL FUND BUDGETARY HIGHLIGHTS

The final appropriations for the General Fund at year-end were \$1.5 million more than the original budget and total actual expenditures were \$21.5 million less than the final budget. The factors contributing to the final variance can be briefly summarized as follows:

Changes to Original Budget

- \$1.9 million increase as a result of accepting a U.S. Department of Justice, Office of Community Oriented Policing Services (COPS) Technology grant award.

The transaction combined with several smaller amendments up and down throughout the year resulted in a net increase of nearly \$1.5 million. Actual expenditures were significantly less and revenues exceeded budgetary estimates eliminating the need to draw upon existing fund balance.

Variance with Final Budget

- The timing of capital projects in this fund account for over \$5.8 million of this variance. Of this amount, \$3.5 million was encumbered and \$2.3 was re-budgeted to be expended during the following fiscal year.
- As a change in inter-fund reimbursement policy, approximately \$16.0 million of costs budgeted in the General fund were reclassified to the Tide and Submerged Lands fund. Although the Tide and Submerged Land fund budget was amended for the increase, the

General Fund budget was never reduced. In the previous reimbursement procedure, the General Fund was reimbursed for a small portion of the costs to maintain the tidelands area by a transfer-in from the Tide & Submerged Lands fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for governmental and business-type activities as of June 30, 2004, amounts to \$1.64 billion (net of accumulated depreciation). This investment in a broad range of capital assets includes land, buildings and systems, improvements, machinery and equipment, park facilities, roads, storm drains, piers, oil wells, sound walls, and bridges. The total net increase (including additions and deletions) of \$97.4 million represents a 6% increase over last year. The \$97.4 million net increase is the net result of additions of \$116 million, of which \$102.7 million is attributable to the special item, capital contribution, and deletions of \$19 million.

Table 7
Capital Assets at Year End
(net of depreciation, in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2003		2003		2003	
	as restated	2004	as restated	2004	as restated	2004
Land	\$ 1,219,745	\$ 1,314,840	\$ 2,016	\$ 2,016	\$ 1,221,761	\$ 1,316,856
Structures	22,151	25,070	119	114	22,270	25,184
Equipment	8,615	7,711	2	17	8,617	7,728
Infrastructure	180,102	186,571	93,633	96,496	273,735	283,067
Work in progress	11,762	4,020	4,018	2,673	15,780	6,692
Totals	<u>\$ 1,442,375</u>	<u>\$ 1,538,211</u>	<u>\$ 99,789</u>	<u>\$ 101,316</u>	<u>\$ 1,542,164</u>	<u>\$ 1,639,528</u>

Major capital asset events during the current fiscal year included the following:

- Excluding the \$102.7 million in capital contributions related to the special item mentioned above, the City capitalized \$24.0 million in capital assets in the current year. Of the \$24.0 million, \$9.2 million was paid for through current year expenses and the remaining \$14.8 million represents additions from work in progress started in previous years.
- Of the \$119.0 million capitalized as governmental assets in the current year, \$102.7 million represents the capital contribution disclosed as a special item, \$6.7 million paid in previous years for completion of Bonita Canyon Park, and \$3.7 million in work in progress. Of the \$8.0 million capitalized in the current year as business-type assets, \$4.0 million represented additions for major repairs and upgrades to the water mains, \$1.4 million in additions to wastewater and water pump stations, and \$2.6 million as current year additions to the Big Canyon Reservoir Cover Project.

Additional information on the City's capital assets can be found in Note (5) of the Notes to the Financial Statements.

Long-term Debt

At the end of the current fiscal year, the City had total long-term debt outstanding of \$54.2 million for all governmental and business-type activities.

Table 8
Outstanding Debt at Year-End
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2003	2004	2003	2004	2003	2004
Certificates of participation	\$ 6,110,000	\$ 5,845,000	\$ -	\$ -	\$ 6,110,000	\$ 5,845,000
Note payable	2,082,483	1,939,133	-	-	2,082,483	1,939,133
Pre-annexation agreement	16,800,000	15,600,000	-	-	16,800,000	15,600,000
CDBG Loan	2,400,000	2,340,000	-	-	2,400,000	2,340,000
Capital leases	1,293,586	862,975	-	-	1,293,586	862,975
Revenue bonds	-	-	9,765,000	8,535,000	9,765,000	8,535,000
Claims and judgments	4,285,236	2,839,000	-	-	4,285,236	2,839,000
Workers' compensation payable	7,326,000	8,393,227	-	-	7,326,000	8,393,227
Compensated absences	8,139,727	7,796,024	-	-	8,139,727	7,796,024
Totals	\$ 48,437,032	\$ 45,615,359	\$ 9,765,000	\$ 8,535,000	\$ 58,202,032	\$ 54,150,359

The City's total debt decreased by \$4.0 million during the current fiscal year as the net result of regular debt service payments; claims and judgments, and compensated absences payable decreased by \$1.8 million. The City's Revenue Bonds and Certificates of Participation were insured and therefore, maintain "AAA" rating from Standard & Poor's Corporation and an "Aaa" from Moody's Investors Services.

Additional information on the City's long-term debt can be found in Note (6) of the Notes to the Financial Statements.

FACTORS EFFECTING NEXT YEAR'S BUDGET

Overall the 2004-2005 operating budget excluding capital improvement projects and internal charges increased 1.85% over the 2003-2004 amended budget. A brief summary of the factors considered when preparing the 2004-2005 budget are as follows:

- The State of California budget deficit resulted in several budget balancing actions as part of SB 1096 that heavily impact local governments. The most significant component ERAF III will cause the City to lose nearly \$2.3 million in property tax revenues in 2004-2005 and 2005-2006.

- Current employee bargaining unit agreements provide for salary and benefit increases ranging from 2% to 4% of salary and benefits. All safety employee agreements are due to expire in December, 2004. All miscellaneous agreements will expire in June, 2005. There will be many factors considered during negotiations to renew these agreements.
- Investment losses in the equities markets between 2000 and 2002 have caused the City's pension provider, Cal PERS to revise employer contribution rates significantly. The increased rates will cause pension costs for the City to increase nearly \$3.6 million in fiscal year 2004-2005.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Administrative Services Department, 3300 Newport Boulevard, Newport Beach, CA 92663-3884, (949) 644-3126.

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CITY OF NEWPORT BEACH
Statement of Net Assets
June 30, 2004

	Governmental Activities	Business-type Activities	Total
Assets:			
Cash and investments (note 4)	\$ 102,646,182	\$ 19,311,046	\$ 121,957,228
Receivables:			
Accounts	5,400,946	4,195,732	9,596,678
Notes	50,000	-	50,000
Interest	951,776	-	951,776
Intergovernmental receivables	10,521,829	867,299	11,389,128
Restricted cash with fiscal agent (note 4)	5,040,828	1,425,597	6,466,425
Internal balances	(22,219)	22,219	-
Investment in joint venture (note 15)	2,656,819	-	2,656,819
Prepaid items	333,141	-	333,141
Inventory	496,894	-	496,894
Other	2,187	-	2,187
Capital assets, (note 5):			
Non-depreciable	1,318,859,392	4,689,026	1,323,548,418
Depreciable	331,895,356	138,003,150	469,898,506
Accumulated depreciation	(112,543,347)	(41,376,069)	(153,919,416)
Total assets	1,666,289,784	127,138,000	1,793,427,784
Liabilities:			
Accounts payable	5,963,016	2,436,219	8,399,235
Accrued salaries and benefits	4,765,474	209,186	4,974,660
Accrued interest payable	155,153	183,871	339,024
Deposits payable	2,967,365	73,492	3,040,857
Deferred revenue	1,905,326	-	1,905,326
Noncurrent liabilities (note 6):			
Due within one year	8,180,933	1,280,000	9,460,933
Due in more than one year	37,434,426	7,255,000	44,689,426
Total liabilities	61,371,693	11,437,768	72,809,461
Net Assets:			
Invested in capital assets, net of accumulated depreciation and related debt	1,512,651,096	94,206,704	1,606,857,800
Restricted for:			
Community development	11,799,749	-	11,799,749
Public safety	894,388	-	894,388
Public works	17,207,876	-	17,207,876
Community services	13,950,695	-	13,950,695
Debt Service	566,157	-	566,157
Endowment - nonexpendable	1,075,217	-	1,075,217
Unrestricted	46,772,913	21,493,528	68,266,441
Total net assets	\$ 1,604,918,091	\$ 115,700,232	\$ 1,720,618,323

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Statement of Activities
Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues			Total Program Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government	\$ 11,428,379	\$ 2,109,141	\$ 18,333	\$ -	\$ 2,127,474
Public safety	58,178,633	15,739,912	1,408,680	-	17,148,592
Public works	38,127,832	5,481,464	5,898,419	586,499	11,966,382
Community development	6,229,785	5,196,276	-	-	5,196,276
Community services	14,741,504	3,846,566	3,355,897	88,316	7,290,779
Interest on long-term debt	542,126	-	-	-	-
Total governmental activities	129,248,259	32,373,359	10,681,329	674,815	43,729,503
Business-type activities:					
Water	17,185,034	18,430,000	-	-	18,430,000
Wastewater	3,363,954	2,882,793	-	-	2,882,793
Total business-type activities	20,548,988	21,312,793	-	-	21,312,793
Total primary government	\$ 149,797,247	\$ 53,686,152	\$ 10,681,329	\$ 674,815	\$ 65,042,296

General revenues:

Taxes:

Property taxes

Sales taxes

Transient occupancy taxes

Business license tax

Franchise taxes

Motor vehicle license tax

Other taxes

Investment income

Net decrease in fair
value of investments

Other

Property income

Share of joint venture net income (note 15)

Special Item:

Capital contributions (note 16)

Transfers

Total general revenues, special items

capital contributions and transfers

Change in net assets

Net assets at beginning of year,
as restated (notes 5 and 18)

Net assets at end of year

See accompanying notes to basic financial statements

Net (Expense) Revenue and Changes in Net Assets
Primary Government

Governmental Activities	Business-type Activities	Total
\$ (9,300,905)	\$ -	\$ (9,300,905)
(41,030,041)	-	(41,030,041)
(26,161,450)	-	(26,161,450)
(1,033,509)	-	(1,033,509)
(7,450,725)	-	(7,450,725)
(542,126)	-	(542,126)
(85,518,756)	-	(85,518,756)
-	1,244,966	1,244,966
-	(481,161)	(481,161)
-	763,805	763,805
\$ (85,518,756)	\$ 763,805	\$ (84,754,951)
43,631,829	-	43,631,829
21,843,884	-	21,843,884
8,045,132	-	8,045,132
2,830,127	-	2,830,127
2,765,519	-	2,765,519
3,624,917	-	3,624,917
266,642	-	266,642
584,415	203,041	787,456
(360,586)	(87,078)	(447,664)
214,536	-	214,536
	29,280	29,280
146,819	-	146,819
102,713,421	215,331	102,928,752
57,783	(57,783)	-
186,364,438	302,791	186,667,229
100,845,682	1,066,596	101,912,278
1,504,072,409	114,633,636	1,618,706,045
<u>\$ 1,604,918,091</u>	<u>\$ 115,700,232</u>	<u>\$ 1,720,618,323</u>

See accompanying notes to basic financial statements

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Governmental Funds



GOVERNMENTAL FUNDS

Major Funds

The ***General Fund*** is used to account for fiscal resources which are dedicated to governmental operations of the City, and not required to be accounted for in another fund.

The ***Tide and Submerged Land Fund*** is a Special Revenue Fund used to account for all revenues and expenditures related to the operation of the City's tidelands, including beaches and marinas.

The ***Newport Coast Annexation Fund*** is a Special Revenue Fund used to account for revenues and expenditures related to the Newport Coast Annexation Agreement.

Non-major Funds

Non-major governmental funds are those governmental funds which do not meet the criteria of a major fund. For reporting purposes in this section, they are combined together as Other Governmental Funds.

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CITY OF NEWPORT BEACH
Governmental Funds
Balance Sheet
June 30, 2004

Assets	General	Tide and Submerged Land	Newport Coast Annexation	Other Governmental Funds	Totals
Cash and investments (note 4)	\$ 43,565,944	\$ 264,938	\$ 17,753,391	\$ 20,824,699	\$ 82,408,972
Receivables:					
Accounts	3,646,052	790,085	-	949,388	5,385,525
Notes	50,000	-	-	-	50,000
Interest	951,776	-	-	-	951,776
Intergovernmental receivables	4,972,801	-	5,000,000	549,028	10,521,829
Restricted cash with fiscal agent (note 4)	-	-	-	5,040,828	5,040,828
Due from other funds (note 12)	3,250,242	-	-	-	3,250,242
Prepaid items	256,947	-	-	-	256,947
Inventory	178,630	-	-	-	178,630
Other	-	-	-	2,187	2,187
Total assets	\$ 56,872,392	\$ 1,055,023	\$ 22,753,391	\$ 27,366,130	\$ 108,046,936
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 3,516,578	\$ 400,665	\$ -	\$ 1,149,191	\$ 5,066,434
Accrued payroll	4,667,882	45,662	-	-	4,713,544
Deposits payable	2,819,205	148,160	-	-	2,967,365
Deferred revenue	1,424,347	-	5,000,000	2,097,261	8,521,608
Due to other funds (note 12)	-	-	-	3,250,242	3,250,242
Total liabilities	12,428,012	594,487	5,000,000	6,496,694	24,519,193
Fund balances:					
Reserved for encumbrances	3,527,179	340,208	575,000	2,631,885	7,074,272
Reserved for debt service	-	-	-	566,157	566,157
Reserved for permanent endowment	-	-	-	775,781	775,781
Reserved for affordable housing	2,665,823	-	-	-	2,665,823
Reserved for prepaid items	256,947	-	-	-	256,947
Reserved for inventories	178,630	-	-	-	178,630
Reserved for long-term receivable	50,000	-	-	-	50,000
Unreserved:					
Designated for special purposes	16,424,018	120,328	10,600,000	-	27,144,346
Designated, reported in:					
Special Revenue Funds	-	-	-	17,852,302	17,852,302
Designated for stabilization	2,379,885	-	-	-	2,379,885
Designated for contingencies	11,899,427	-	-	-	11,899,427
Designated for capital projects	2,266,169	-	6,578,391	-	8,844,560
Designated for appropriations	4,796,302	-	-	-	4,796,302
Undesignated, reported in:					
Special Revenue Funds	-	-	-	(956,689)	(956,689)
Total fund balances	44,444,380	460,536	17,753,391	20,869,436	83,527,743
Total liabilities and and fund balances	\$ 56,872,392	\$ 1,055,023	\$ 22,753,391	\$ 27,366,130	\$ 108,046,936

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Governmental Funds
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2004

Fund balances of governmental funds	\$	83,527,743
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets net of accumulated depreciation have not been included as financial resources in governmental fund activity. Amount excludes capital assets from internal service funds which are added below.		1,531,207,853
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Long term debt from the General Long Term Debt Account Group that have not been included in the governmental fund activity. Amounts exclude long-term debt activity from internal service funds which have been added below:

Certificates of participation payable		(5,845,000)
Note payable		(1,939,133)
Pre-annexation agreement		(15,600,000)
CDBG loan		(2,340,000)

Accrued interest payable for the current portion of interest due on long-term debt has not been reported in the governmental funds.		(155,153)
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Some of the revenue will be collected after year-end, but is not available soon enough to pay for the current period's expenditures, and therefore is reported as deferred revenue in the governmental funds.		6,616,282
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Internal service funds are used by management to charge the costs of certain activities, such as self-insurance, workers' compensation, compensated absences, retiree insurance and fleet management, to individual funds. The assets (including capital assets) and liabilities of the internal service funds must be added to the statement of net assets.		6,810,899
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Investment in joint ventures is not a current financial resource and therefore not reported in the governmental funds.		2,656,819
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Internal balance created by the consolidation of internal service fund activities related to enterprise funds is not reported in the governmental funds.		(22,219)
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Net assets of governmental activities	\$	1,604,918,091
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See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2004

	General	Tide and Submerged Land	Newport Coast Annexation	Other Governmental Funds	Totals
Revenues					
Taxes and assessments:					
Property	\$ 43,631,829	\$ -	\$ -	\$ -	\$ 43,631,829
Sales	21,843,884	-	-	-	21,843,884
Transient occupancy	8,045,132	-	-	-	8,045,132
Other	5,901,921	-	-	451,985	6,353,906
Intergovernmental	6,013,990	18,333	5,000,000	5,075,700	16,108,023
Licenses and permits	3,310,934	1,227,565	-	891,133	5,429,632
Charges for services	11,478,222	38,560	-	-	11,516,782
Fines and forfeitures	3,509,540	-	-	96,423	3,605,963
Investment income	399,492	26,540	159,341	302,140	887,513
Net decrease in fair value of investments	(178,350)	(11,830)	(71,025)	(99,381)	(360,586)
Property income	6,175,985	5,681,686	-	-	11,857,671
Donations	634,811	-	-	2,069,556	2,704,367
Other	217,743	-	-	260,457	478,200
Total revenues	110,985,133	6,980,854	5,088,316	9,048,013	132,102,316
Expenditures					
Current:					
General government	10,964,789	59,467	-	-	11,024,256
Public safety	41,510,043	15,021,036	-	318,639	56,849,718
Public works	19,083,467	2,802,037	-	895,392	22,780,896
Community development	5,283,407	287,143	-	152,481	5,723,031
Community services	8,448,887	1,178,187	-	1,200,272	10,827,346
Capital outlay	4,594,096	909,740	6,667	9,678,047	15,188,550
Debt service (note 6):					
Principal	-	143,350	1,200,000	325,000	1,668,350
Interest and fiscal charges	-	93,712	-	426,516	520,228
Total expenditures	89,884,689	20,494,672	1,206,667	12,996,347	124,582,375
Excess (deficiency) of revenues over expenditures	21,100,444	(13,513,818)	3,881,649	(3,948,334)	7,519,941
Other financing sources (uses)					
Transfers in (note 13)	266,902	13,160,502	1,200,000	1,925,991	16,553,395
Transfers out (note 13)	(16,415,061)	-	(1,249,119)	(831,432)	(18,495,612)
Total other financing sources (uses)	(16,148,159)	13,160,502	(49,119)	1,094,559	(1,942,217)
Net change in fund balances	4,952,285	(353,316)	3,832,530	(2,853,775)	5,577,724
Fund balances, beginning	36,322,784	813,852	13,920,861	23,482,295	74,539,792
Restatement (note 18)	3,169,311	-	-	240,916	3,410,227
Restated fund balance	39,492,095	813,852	13,920,861	23,723,211	77,950,019
Fund balances, ending	\$ 44,444,380	\$ 460,536	\$ 17,753,391	\$ 20,869,436	\$ 83,527,743

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year ended June 30, 2004

Net change in fund balances - total governmental funds	\$ 5,577,724
Amounts reported for governmental activities in the statement of activities differ from the amounts reported in the statement of activities because:	
Donations of capital assets do not report revenue in the governmental funds	102,713,421
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(6,274,477)
Repayment of debt service principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	1,668,350
Proceeds from long-term debt is an other financing source in the governmental funds, but new debt issuances increase long-term liabilities in the statement of net assets.	
Accrued Interest for debt service. This is the net change in accrued interest for the current period.	7,266
Some of the revenue will be collected after year-end, but is not available soon enough to pay for the current period's expenditures, and therefore is reported as deferred revenue in the governmental funds. This is the net change in deferred revenue for the current period.	(4,709,236)
Internal service funds are used by management to charge the costs of certain activities, such as self-insurance, workers' compensation, compensated absences, retiree insurance and fleet management, to individual funds. The net revenue of the internal service funds is reported in the statement of activities.	2,120,213
Investment in joint ventures creates an explicit, measurable equity interest reported only in the statement of activities.	146,819
Internal balance created by the consolidation of internal service funds activities related to enterprise funds is reflected as a reduction of revenues in the statement of activities.	(404,398)
Change in net assets of governmental activities	<u>\$ 100,845,682</u>

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
General Fund
Budgetary Comparison Statement
For the Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes and assessments:				
Property	\$ 39,825,460	\$ 39,825,460	\$ 43,631,829	\$ 3,806,369
Sales	20,548,500	20,548,500	21,843,884	1,295,384
Transient occupancy	8,372,160	8,372,160	8,045,132	(327,028)
Other	5,227,500	5,227,500	5,901,921	674,421
Intergovernmental	2,723,956	3,684,391	6,013,990	2,329,599
Licenses and permits	2,023,010	2,023,010	3,310,934	1,287,924
Charges for services	10,587,395	11,063,288	11,478,222	414,934
Fines and forfeitures	3,161,250	3,191,250	3,509,540	318,290
Investment income	-	1,200,000	399,492	(800,508)
Net decrease in fair value of investments	-	-	(178,350)	(178,350)
Property income	6,820,088	5,659,088	6,175,985	516,897
Donations	250,000	708,942	634,811	(74,131)
Other	115,000	408,620	217,743	(190,877)
Total revenues	99,654,319	101,912,209	110,985,133	9,072,924
Expenditures				
General government:				
City council	918,417	918,098	1,068,221	(150,123)
City clerk	304,047	306,411	294,781	11,630
City attorney	937,624	1,103,765	1,071,587	32,178
City manager	1,654,856	2,403,410	2,145,717	257,693
Administrative services	5,236,168	5,331,449	5,219,479	111,970
Human resources	1,230,616	1,235,790	1,165,004	70,786
Total General government	10,281,728	11,298,923	10,964,789	334,134
Public safety:				
Police	32,512,193	32,825,249	26,501,256	6,323,993
Fire	24,044,873	24,131,478	15,008,787	9,122,691
Total Public safety	56,557,066	56,956,727	41,510,043	15,446,684
Public works:				
General services	16,507,714	16,975,049	14,685,024	2,290,025
Public works	3,877,352	3,870,844	3,373,792	497,052
Utilities	1,013,085	1,013,857	1,024,651	(10,794)
Total Public works	21,398,151	21,859,750	19,083,467	2,776,283

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
General Fund
Budgetary Comparison Statement
(continued)

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Community development:				
Planning	2,979,381	3,011,077	2,217,736	793,341
Building	2,752,232	2,953,608	3,065,671	(112,063)
Total Community development	5,731,613	5,964,685	5,283,407	681,278
Community services:				
Library Services	4,940,731	5,280,331	5,090,337	189,994
Recreation and senior services	3,397,963	3,491,211	3,358,550	132,661
Total Community services	8,338,694	8,771,542	8,448,887	322,655
Capital outlay	7,442,503	6,464,031	4,594,096	1,869,935
Debt service:				
Principal	42,922	42,922	-	42,922
Interest and fiscal charges	5,078	5,078	-	5,078
Total Debt service	48,000	48,000	-	48,000
Total expenditures	109,797,755	111,363,658	89,884,689	21,478,969
Excess (deficiency) of revenues over expenditures	(10,143,436)	(9,451,449)	21,100,444	30,551,893
Other financing sources (uses)				
Transfers in	-	-	266,902	266,902
Transfers out	(562,685)	(13,723,187)	(16,415,061)	(2,691,874)
Long-term debt issued	-	-	-	-
Total other financing sources (uses)	(562,685)	(13,723,187)	(16,148,159)	(2,424,972)
Net change in fund balance	(10,706,121)	(23,174,636)	4,952,285	28,126,921
Fund balance, beginning	36,322,784	36,322,784	36,322,784	-
Restatement	3,169,311	3,169,311	3,169,311	-
Restated fund Balance	39,492,095	39,492,095	39,492,095	-
Fund balance, ending	<u>\$ 28,785,974</u>	<u>\$ 16,317,459</u>	<u>\$ 44,444,380</u>	<u>\$ 28,126,921</u>

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Tide and Submerged Land
Budgetary Comparison Statement
For the Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Intergovernmental	\$ -	\$ 18,333	\$ 18,333	\$ -
Licenses and permits	1,174,000	1,174,000	1,227,565	53,565
Charges for services	33,500	33,500	38,560	5,060
Investment income	-	-	26,540	26,540
Net decrease in fair value of investments	-	-	(11,830)	(11,830)
Property income	5,159,006	5,159,006	5,681,686	522,680
Other	-	-	-	-
Total revenues	6,366,506	6,384,839	6,980,854	596,015
Expenditures				
General government	59,467	59,467	59,467	-
Public safety	15,021,036	15,021,036	15,021,036	-
Public works	2,791,003	2,791,003	2,802,037	(11,034)
Community services	1,094,049	1,226,989	1,178,187	48,802
Community development	287,143	287,143	287,143	-
Capital outlay	1,378,466	1,250,346	909,740	340,606
Debt service:				
Principal	143,350	143,350	143,350	-
Interest and fiscal charges	93,712	93,712	93,712	-
Total expenditures	20,868,226	20,873,046	20,494,672	378,374
Excess (deficiency) of revenues over expenditures	(14,501,720)	(14,488,207)	(13,513,818)	974,389
Other financing sources (uses)				
Transfers in	-	13,160,502	13,160,502	-
Transfers out	(3,297,590)	-	-	-
Total other financing sources (uses)	(3,297,590)	13,160,502	13,160,502	-
Net change in fund balance	(17,799,310)	(1,327,705)	(353,316)	974,389
Fund balance, beginning	813,852	813,852	813,852	-
Fund balance, ending	\$ (16,985,458)	\$ (513,853)	\$ 460,536	\$ 974,389

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Newport Coast Annexation
Budgetary Comparison Statement
For the Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Intergovernmental	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ -
Investment income	302,000	302,000	159,341	(142,659)
Net decrease in fair value of investments	-	-	(71,025)	(71,025)
Total revenues	5,302,000	5,302,000	5,088,316	(213,684)
Expenditures				
Capital outlay	-	623,322	6,667	616,655
Debt service (note 6):				
Principal	1,200,000	1,200,000	1,200,000	-
Total expenditures	1,200,000	1,823,322	1,206,667	616,655
Excess (deficiency) of revenues over expenditures	4,102,000	3,478,678	3,881,649	(830,339)
Other financing uses				
Transfers in	1,200,000	1,200,000	1,200,000	-
Transfers out	(1,362,000)	(1,362,000)	(1,249,119)	112,881
Total other financing sources (uses)	(162,000)	(162,000)	(49,119)	112,881
Net change in fund balance	3,940,000	3,316,678	3,832,530	(943,220)
Fund balance, beginning	14,260,322	14,204,602	13,920,861	(283,741)
Fund balance, ending	<u>\$ 18,200,322</u>	<u>\$ 17,521,280</u>	<u>\$ 17,753,391</u>	<u>\$ 232,111</u>

See accompanying notes to basic financial statements

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Proprietary Funds



PROPRIETARY FUNDS

Business-type Activities

The ***Water Fund*** is a Major Fund used to account for the operations of the City's water utility, a self-supporting activity which is entirely financed through user charges.

The ***Wastewater Fund*** is a Major Fund used to account for the operations of the City's wastewater system, a self-supporting activity which is entirely financed through user charges.

Governmental Activities

The ***Internal Service Funds*** are used to allocate the cost of providing goods and services by one department to other departments on a cost reimbursement basis.

CITY OF NEWPORT BEACH
Proprietary Fund
Statement of Net Assets
June 30, 2004

	Enterprise Funds		Governmental
	Water	Wastewater	Activities
Assets			Internal Service
			Funds
Current assets:			
Cash and investments (note 4)	\$ 16,118,900	\$ 3,192,146	\$ 19,311,046
Restricted cash with fiscal agent (note 4)	1,425,597	-	1,425,597
Receivables:			
Accounts	3,620,800	574,932	4,195,732
Intergovernmental receivables	867,299	-	867,299
Inventories	-	-	-
Prepaid items	-	-	-
Total current assets	<u>22,032,596</u>	<u>3,767,078</u>	<u>25,799,674</u>
Noncurrent assets:			
Capital assets (note 5):			
Land	2,016,450	-	2,016,450
Structures	205,793	-	205,793
Equipment	148,191	-	148,191
Infrastructure	98,599,168	39,049,998	137,649,166
Work in progress	2,624,299	48,277	2,672,576
Less accumulated depreciation	<u>(30,937,256)</u>	<u>(10,438,813)</u>	<u>(41,376,069)</u>
Total capital assets (net of accumulated depreciation)	<u>72,656,645</u>	<u>28,659,462</u>	<u>101,316,107</u>
Total noncurrent assets	<u>72,656,645</u>	<u>28,659,462</u>	<u>101,316,107</u>
Total assets	<u>94,689,241</u>	<u>32,426,540</u>	<u>127,115,781</u>
Liabilities			
Current liabilities:			
Accounts payable	2,237,936	198,283	2,436,219
Accrued payroll	157,025	52,161	209,186
Capital leases - current	-	-	-
Workers' compensation - current	-	-	-
General liability - current	-	-	-
Compensated absences - current	-	-	-
Total current liabilities	<u>2,394,961</u>	<u>250,444</u>	<u>2,645,405</u>
Current liabilities payable from restricted assets:			
Deposits payable	73,468	24	73,492
Accrued interest payable	183,871	-	183,871
Bonds payable (note 6)	1,280,000	-	1,280,000
Total current liabilities payable from restricted assets	<u>1,537,339</u>	<u>24</u>	<u>1,537,363</u>
Noncurrent liabilities (note 6):			
Bonds payable	7,255,000	-	7,255,000
Capital leases	-	-	-
Workers' compensation	-	-	-
General liability	-	-	-
Compensated absences	-	-	-
Total noncurrent liabilities	<u>7,255,000</u>	<u>-</u>	<u>7,255,000</u>
Total liabilities	<u>11,187,300</u>	<u>250,468</u>	<u>11,437,768</u>
Net Assets			
Invested in capital assets, net of related debt	65,547,242	28,659,462	94,206,704
Unrestricted	17,954,699	3,516,610	21,471,309
Total Net Assets	<u>\$ 83,501,941</u>	<u>\$ 32,176,072</u>	<u>115,678,013</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			22,219
Net assets of business-type activities			<u>\$ 115,700,232</u>

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Proprietary Fund
Statement of Revenues,
Expenses and Changes in Fund Net Assets
For the Year Ended June 30, 2004

	Enterprise Funds		Governmental Activities
	Water	Wastewater	Internal Service Funds
Operating revenues:			
Charges for sales and services:			
Water sales	\$ 16,656,037	\$ -	\$ 16,656,037
Intergovernmental	1,608,507	-	1,608,507
Sewer service and connection fees	-	2,867,925	2,867,925
Other	165,456	14,868	180,324
Total operating revenues	<u>18,430,000</u>	<u>2,882,793</u>	<u>21,312,793</u>
Operating expenses:			
Purchase of water	7,194,252	-	7,194,252
Salaries and benefits	3,210,794	1,066,509	4,277,303
Depreciation	1,250,879	512,519	1,763,398
Professional services	1,451,855	289,989	1,741,844
Maintenance and supplies	706,616	380,032	1,086,648
System maintenance	1,415,556	476,284	1,891,840
Fleet parts and supplies	-	-	-
Workers' compensation	-	-	-
Claims and judgments	-	-	-
Compensated absences	-	-	-
Retiree insurance	-	-	-
Other	1,277,381	176,085	1,453,466
Total operating expenses	<u>16,507,333</u>	<u>2,901,418</u>	<u>19,408,751</u>
Operating income (loss)	<u>1,922,667</u>	<u>(18,625)</u>	<u>1,904,042</u>
Nonoperating revenues (expenses):			
Investment income	172,396	30,645	203,041
Net decrease in fair value of investments	(73,418)	(13,660)	(87,078)
Property income	29,280	-	29,280
Loss on removal of fixed assets	(323,655)	(466,152)	(789,807)
Interest expense	(367,743)	-	(367,743)
Other fiscal charges	(4,906)	-	(4,906)
Total nonoperating revenues (expenses)	<u>(568,046)</u>	<u>(449,167)</u>	<u>(1,017,213)</u>
Income (loss) before transfers	1,354,621	(467,792)	886,829
Capital contributions - donated capital	86,519	128,812	215,331
Transfers in (out) (note 13)	<u>(50,258)</u>	<u>(7,525)</u>	<u>(57,783)</u>
Change in net assets	1,390,882	(346,505)	1,044,377
Net assets, beginning of year	83,856,371	32,665,592	4,690,685
Restatement (note 18)	<u>(1,745,312)</u>	<u>(143,015)</u>	<u>-</u>
Net assets, beginning of year, as restated	82,111,059	32,522,577	4,690,685
Net assets, end of year	<u>\$ 83,501,941</u>	<u>\$ 32,176,072</u>	<u>\$ 6,810,899</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			22,219
Change in net assets of business-type activities			<u>\$ 1,066,596</u>

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Proprietary Fund
Statement of Cash Flows
For the Year ended June 30, 2004

	Enterprise Funds			Governmental Activities Internal Service Funds
	<u>Water</u>	<u>Wastewater</u>	<u>Total Enterprise Funds</u>	
Cash flows from operating activities:				
Cash received from customers or user departments	\$ 17,213,841	\$ 2,822,617	\$ 20,036,458	\$ 12,634,686
Cash payments to employees for services	(3,153,393)	(1,046,063)	(4,199,456)	(5,556,570)
Cash payments to suppliers for goods and services	(10,528,693)	(1,091,634)	(11,620,327)	(5,700,748)
Cash received (payments made) for other operating activities	(1,111,925)	(161,217)	(1,273,142)	5,063
Net cash provided (used) by operating activities	<u>2,419,830</u>	<u>523,703</u>	<u>2,943,533</u>	<u>1,382,431</u>
Cash flows from noncapital financing activities:				
Cash received from other funds	-	-	-	2,000,000
Cash paid to other funds	(50,258)	(7,525)	(57,783)	-
Net cash provided by (used for) noncapital financing activities	<u>(50,258)</u>	<u>(7,525)</u>	<u>(57,783)</u>	<u>2,000,000</u>
Cash flows from capital related financing activities:				
Acquisition of capital assets	(3,626,111)	(238,992)	(3,865,103)	(1,140,130)
Proceeds from sale of capital assets	-	-	-	121,449
Principal payments on long-term liabilities	(1,230,000)	-	(1,230,000)	(430,611)
Interest paid on long-term liabilities	(367,743)	-	(367,743)	(29,164)
Other fiscal charges	(4,906)	-	(4,906)	-
Net cash used for capital related financing activities	<u>(5,228,760)</u>	<u>(238,992)</u>	<u>(5,467,752)</u>	<u>(1,478,456)</u>
Cash flows from investing activities:				
Interest on investments	98,978	16,985	115,963	101,506
Property income	29,280	-	29,280	-
Net cash provided by investing activities	<u>128,258</u>	<u>16,985</u>	<u>145,243</u>	<u>101,506</u>
Net increase (decrease) in cash and cash equivalents	(2,730,930)	294,171	(2,436,759)	2,005,481
Cash and cash equivalents, beginning	<u>20,275,427</u>	<u>2,897,975</u>	<u>23,173,402</u>	<u>18,231,729</u>
Cash and cash equivalents, ending	<u>\$ 17,544,497</u>	<u>\$ 3,192,146</u>	<u>\$ 20,736,643</u>	<u>\$ 20,237,210</u>
Reconciliation of cash equivalents to the statement of net assets				
Cash and investments reported on statement of net assets	\$ 16,118,900	\$ 3,192,146	\$ 19,311,046	\$ 20,237,210
Cash and investments with fiscal agent reported on statement of net assets	<u>1,425,597</u>	<u>-</u>	<u>1,425,597</u>	<u>-</u>
Cash and cash equivalents	<u>\$ 17,544,497</u>	<u>\$ 3,192,146</u>	<u>\$ 20,736,643</u>	<u>\$ 20,237,210</u>
Reconciliation of operating income to net cash used for operating activities:				
Operating income (loss)	\$ 1,922,667	\$ (18,625)	\$ 1,904,042	(37,858)
Adjustments to reconcile operating income to net cash used for operating activities:				
Depreciation	1,250,879	512,519	1,763,398	1,707,231
(Increase) decrease in accounts receivable	(178,190)	(45,308)	(223,498)	6,918
(Increase) in intergovernmental receivable	(867,299)	-	(867,299)	-
(Increase) in inventories	-	-	-	(121,395)
(increase) in prepaid items	-	-	-	(29,126)
Increase in accounts payable and accrued payroll	322,202	75,117	397,319	579,373
(Decrease) in accrued interest payable	(25,215)	-	(25,215)	-
(Decrease) in deposits payable	(5,214)	-	(5,214)	-
Increase in workers' compensation	-	-	-	1,067,227
(Decrease) in general liability	-	-	-	(1,446,236)
(Decrease) in compensated absences	-	-	-	(343,703)
Total adjustments	<u>497,163</u>	<u>542,328</u>	<u>1,039,491</u>	<u>1,420,289</u>
Net cash used for operating activities	<u>\$ 2,419,830</u>	<u>\$ 523,703</u>	<u>\$ 2,943,533</u>	<u>\$ 1,382,431</u>
<u>Noncash investing, capital and financing activities:</u>				
Disposal of fixed assets	\$ 3,707,829	\$ 1,328,782	\$ 5,036,611	\$ 35,719
Loss on disposal of fixed assets	323,655	466,152	789,807	-
Contribution of capital assets from government	86,519	128,812	215,331	-
(Decrease) in fair value of investments	(73,418)	(13,660)	(87,078)	(81,630)
Total of noncash activities	<u>\$ 4,044,585</u>	<u>\$ 1,910,086</u>	<u>\$ 5,954,671</u>	<u>\$ (45,911)</u>

See accompanying notes to basic financial statements

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Fiduciary Funds



FIDUCIARY FUNDS

Agency Funds, a type of Fiduciary Funds, are used to account for assets held by the City as an agent for other government entities, private organizations, or individuals.

CITY OF NEWPORT BEACH
Agency Funds
Statement of Fiduciary Assets and Liabilities
June 30, 2004

Assets

Cash and investments (note 4)	\$ 3,199,383
Restricted assets-cash and investments (note 4)	1,266,072
Total assets	<u>\$ 4,465,455</u>

Totals

Liabilities

Due to bondholders	\$ 4,277,721
Due to others	187,734
Total liabilities	<u>\$ 4,465,455</u>

See accompanying notes to basic financial statements

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CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

(1) Summary of Significant Accounting Policies

The basic financial statements of the City of Newport Beach (the "City") have been prepared in conformity with generally accepted accounting principles ("GAAP") as applicable to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

a. Reporting Entity

The City of Newport Beach was incorporated on September 1, 1906. The current City Charter was adopted in 1954. The City operates under a Council-Manager form of government and provides the following services: public safety (police, fire, and marine), highway and streets, cultural and recreation, public improvements, planning and zoning, utilities, and general administrative services.

The financial statements present the financial activity of the City of Newport Beach (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. This entity is legally separate from the City. However, the City of Newport Beach's elected officials have continuing full or partial accountability for fiscal matters of the component unit. The financial reporting entity consists of: (1) the City, (2) organizations for which the City is financially accountable, and (3) organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete.

An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the primary government. In a blended presentation, a component unit's balances and transactions are reported in a manner similar to the balances and transactions of the City. Component units are presented on a blended basis when the component unit's governing body is substantially the same as the City's or the component unit provides services almost entirely to the City.

Blended Component Unit

The financial statements of the City of Newport Beach include the financial activities of the Newport Beach Public Facilities Corporation (the "Corporation"). The Corporation was formed on March 9, 1992, for the purpose of assisting the City of Newport Beach in the financing of public improvements, including a public library. The Corporation is governed by a Board of Directors comprised of seven individuals appointed by the City Council of the City of Newport Beach. The Corporation's financial data and transactions are included in the debt service

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

fund. Separate financial statements are not prepared for the Corporation. The debt service fund is used solely to account for the activities of the Corporation and contains no other City debt financing activities.

b. Basis of Accounting and Measurement Focus

The *basic financial statements* of the City are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

Financial reporting is based upon all GASB pronouncements, as well as the FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins that were issued on or after November 30, 1989 that do not conflict with or contradict GASB pronouncements.

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government (including its blended component units). The City of Newport Beach has no discretely presented component units. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the City.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Program revenues include charges for services, special assessments, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

Fund Financial Statements

The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government's governmental, proprietary, and fiduciary funds are presented after the government-wide financial statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental and enterprise funds. Fiduciary statements include financial information for fiduciary funds. Fiduciary funds of the City primarily represent assets held by the City in a custodial capacity for other individuals or organizations.

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified-accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The City uses an availability period of 60 days.

Sales taxes, property taxes, franchise taxes, gas taxes, motor vehicle license fee, transient occupancy taxes, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period. Other revenue items are considered to be measurable and available when cash is received by the City.

Revenue recognition is subject to the *measurability* and *availability* criteria for the governmental funds in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

transaction upon which they are based takes place. *Imposed non-exchange* transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary non-exchange transactions* are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources," since they do not represent net current assets. Recognition of governmental fund type revenue represented by non-current receivables is deferred until they become current receivables. Non-current portions of other long-term receivables are offset by fund balance reserve accounts. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transaction are recognized in accordance with the requirements of GASB Statement No. 33.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

Proprietary & Fiduciary Funds

The City's enterprise and internal service funds are proprietary funds. In the fund financial statements, proprietary and fiduciary funds are presented using the *accrual basis of accounting*. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, proprietary funds are presented using the *economic resources measurement focus*. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net assets.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies, taxes, and investment earnings result from non-exchange transactions or ancillary activities. Amounts paid to acquire capital assets are capitalized as assets in the proprietary fund financial statements, rather than reported as expenditure. Proceeds of long-term debt are recorded as a liability in the proprietary fund financial statements, rather than as other financing source. Amounts paid to reduce long-term indebtedness of the proprietary funds are reported as a reduction of the related liability, rather than as expenditure.

Agency funds are custodial in nature (assets equal liabilities) and do not involve the recording of City revenues and expenses.

c. Fund Classifications

The City utilizes the following broad categories of funds:

Major Funds

Major funds are those funds which are either material or of particular importance.

Major Governmental Funds – Governmental funds are generally used to account for tax supported activities. The following governmental funds met the criteria of a major fund:

General Fund

The General Fund is the general operating fund of the City. It is used to account for all activities, except those required to be accounted for in another fund.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

Tide and Submerged Land

The Tide and Submerged Land Fund is used to account for all revenues and expenditures related to the operation of the City's tidelands, including beaches and marinas.

Newport Coast Annexation Fund

The Newport Coast Annexation Fund is used to account for revenues and expenditures related to the Newport Coast Annexation Agreement.

Major Proprietary Funds – Proprietary funds are used to report an activity for which a fee is charged to external users to recover the cost of operation.

Water Fund

The Water Fund is an enterprise fund used to account for the activities associated with the transmission and distribution of potable water by the City to its users.

Wastewater Fund

The Wastewater Fund is an enterprise fund used to account for the activities associated with providing sewer services by the City to its users.

Internal Service Funds – The Internal Service Funds are used to account for the City's self-insured general liability and workers' compensation, compensated absences, retiree insurance, and the cost of maintaining and replacing the City's rolling stock fleet. City departments are the primary users of these services and are charged a fee on a cost reimbursement basis.

Fiduciary Funds – The Fiduciary Funds are used to account for assets held by the City as an agent for property owners with special assessments, local businesses in business improvements districts, and other individuals who have made miscellaneous special deposits with the City.

d. Cash and Investments

For purposes of the statement of cash flows, cash and cash equivalents are defined to be cash on hand, demand deposits and highly liquid investments with a maturity of three months or less from the date of purchase. For financial statement presentation purposes, cash and cash equivalents are shown as cash and investments and restricted cash and investments in the proprietary funds.

Investments

Investments are generally stated at fair value.

Cash and investments are pooled to maximize investment yields. The net change in fair value and interest earned on the investments is allocated to the

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

respective funds based on each fund's average monthly cash and investments balance.

The City's investment in LAIF is \$5,063,942 at June 30, 2004. This investment value is based on information provided by the State Treasurer's Office. The carrying value of the City's position in the fund is materially consistent with the fair value of the fund shares. This pool is under the regulatory oversight of the State Treasurer's Office. The LAIF Board consists of five members as designated by Statute. The Chairman is the State Treasurer, or his designated representative. Two members qualified by training and experience in the field of investment of finance, and two members who are treasurers, finance or fiscal officers or business managers employed by any County, City or local district or municipal corporation of this state, are appointed by the State Treasurer. The term of each appointment is two years, or at the pleasure of the appointing authority.

e. Intergovernmental Receivables

Intergovernmental receivables represent grant reimbursement requests, capital project billings, and pending transfers of taxes and fees collected by other government agencies. As of June 30, 2004, the balance of this account was \$11,389,128 of which \$5,000,000 represents a receivable from the Irvine Ranch Water District in conjunction with the Newport Coast Pre-annexation Agreement. See Note (17) for more information.

f. Inventories

Inventories are valued at cost, which approximates market, using the first-in, first-out method. The City follows the consumption method for inventory control. The costs of governmental fund type inventories are recorded as expenditures when consumed.

g. Notes Receivable

Included in notes receivable is a \$50,000 loan to the City Manager to purchase a home in the City. As required by the City Charter and the employment agreement, the City Manager has to establish residency in, and become an elector of, the City of Newport Beach. The City Manager shall pay a simple interest on the unpaid balance of the loan, which shall be due on or before September 15th of each fiscal year.

The interest rate on the loan shall be the average rate of return on all City investments during the fiscal year. The City Manager may, but is not required to make payments to reduce the principal amount of the loan at any time and

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

payments to reduce the principal shall not be subject to any pre-payment penalty. The entire unpaid balance of the loan is due March 26, 2012, or at the City Manager's separation from City employment.

h. Capital Assets

Capital assets, which include land, structures, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the Government-wide Financial Statements. Capital assets are recorded at cost where historical records are available and at an estimated original cost where no historical records exist. Equipment purchased in excess of \$5,000 is capitalized if it has an expected useful life of three years or more. Building, infrastructure, and improvements are capitalized if cost is in excess of \$30,000. The cost of normal maintenance and repairs that do not add to the value of the asset's lives are not capitalized. The City chose to value and report on infrastructure assets in their entirety (e.g. Prior to 1980).

Major capital outlay for capital assets and improvements are capitalized as projects are constructed. For debt-financed capital assets, interest incurred during the construction phase is reflected in the capitalization value of the asset constructed, net of interest earned on the invested proceeds over the same period. Capital assets acquired through lease obligations are valued at the present value of future lease payments at the date acquired. Contributed capital assets are valued at their estimated fair market value at the date of contribution.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements and in the fund financial statements of the proprietary funds. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet. The range of lives used for depreciation purposes for each fixed asset class as follows:

Structures	30-75 years
Equipment	3-15 years
Infrastructure	20-75 years

i. Claims and Judgments

The City accounts for material claims and judgments and associated legal and administrative costs when it is probable that the liability claim has been incurred and the amount of the loss can be reasonably estimated. The City records the estimated loss liabilities in the Internal Service Fund. Included therein are claims incurred but not reported, which consists of (a) known loss events expected to be presented as claims later, (b) unknown loss events that are expected to become claims, and (c) expected future development on claims already reported. This is

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

based upon historical actual results that have established a reliable pattern supplemented by specific information about current matters. Small dollar claims and judgments are recorded as expenditures when paid.

j. Property Taxes

The assessment, levy, and collection of property taxes are the responsibility of the County of Orange. The City records property taxes as revenue when received from the County, except at year-end, when property taxes received within 60 days are accrued as revenue. Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien date	March 1
Levy date	July 1
Due dates	November 1 – 1 st installment March 1 – 2 nd installment
Collection dates	December 10 – 1 st installment April 10 – 2 nd installment

k. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and limited amounts of earned but unused sick leave benefits, which will be paid to employees upon separation from City service. Beginning in fiscal year 1990, the City adopted a general leave plan to replace the traditional vacation and sick leave plan. The City uses a general leave plan which permits a maximum of three years' accrual for every employee, above which the excess is paid out as current compensation. All employees hired prior to January 1, 1990, were given the option of remaining in the traditional vacation and sick leave plan or enrolling in the general leave plan. All employees hired on or after January 1, 1990, are automatically enrolled in the general leave plan. Compensated absences are accrued in the Compensated Absence Internal Service Fund when employee services have been rendered and when it becomes probable that the City will compensate the employees for benefits through paid time off or cash payments at termination or retirement. Benefits that have been earned but are not yet available for use because employees have not met certain conditions are accrued to the extent it is probable that the employees will meet the conditions for compensation in the future.

l. Deferred Revenue

Deferred revenues are those where asset recognition has been met, but the revenue recognition criteria have not been met.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

(2) **Reconciliation of Government-wide and Fund Financial Statements**

a. **Explanation of Differences Between Governmental Funds Balance Sheet and the Statement of Net Assets**

The "total fund balances" of the City's governmental funds \$83,527,743 differs from "net assets" of governmental activities \$1,604,918,091 reported in the statement of net assets. This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

Capital Related Items

When capital assets (property, plant, and equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

Cost of capital assets	\$1,631,215,475
Accumulated depreciation	<u>(100,007,622)</u>
Total capital assets, net*	<u>\$1,531,207,853</u>

*Amount excludes net capital assets of \$7,003,548 from Internal Service funds.

Long-term Debt Transactions

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the statement of net assets. Balances at June 30, 2004 were:

Certificates of participation	\$ 5,845,000
Note payable	1,939,132
Pre-annexation agreement	15,600,000
CDBG Loan	<u>2,340,000</u>
Total	<u>\$25,724,132</u>

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

Accrued Interest

Accrued liabilities in the statement of net assets differ from the amount reported in governmental funds due to accrued interest on outstanding debt payable (see Note 6).

Accrued interest added	<u>\$155,153</u>
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Investment in Joint Venture

Investment in joint ventures is not a current financial resource and hence reported only in the statement of net assets.

Net equity in joint venture	<u>\$2,565,819</u>
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Certain Deferred Revenue

Some of the revenue will be collected after year-end, but is not available soon enough to pay for current period's expenditures, and therefore is reported as deferred revenue in the governmental funds.

Deferred revenue earned	<u>\$6,616,282</u>
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Internal Service Funds

Internal service funds are used by management to charge the costs of certain activities (such as equipment management and self-insurance authorities) to individual funds. The assets (including capital assets) and liabilities of the internal service funds are included in governmental activities in the statement of net assets, because they primarily serve governmental activities of the City.

Internal Service Funds	<u>\$6,810,899</u>
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Reclassifications and Eliminations

Interfund balances must generally be eliminated in the government-wide statements, except for net residual amounts due between governmental activities. Amounts involving fiduciary funds should be reported as external transactions. Any allocations must reduce the expenses of the function from which the expenses are being allocated, so that expenses are reported only once – in the function in which they are allocated.

Investments in joint ventures are not a current financial resource and are not reported in the governmental funds. Therefore, it is added for the statement of net assets. Interfund balance created due to the consolidation of internal service activities to governmental and enterprise funds is not reported in the fund statements and must be added to the statement of net assets.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

- (2) Explanation of Differences between Governmental Funds
(a) Balance Sheet and the Statement of Net Assets, (Continued)

Assets	Total Governmental Funds	Capital Related Items	Accumulated Depreciation	Long-term Debt Transactions	Interest Payable
Cash and investments	\$ 82,408,972	-	-	-	-
Receivables:					
Accounts	5,385,525	-	-	-	-
Notes	50,000	-	-	-	-
Lease	-	-	-	-	-
Interest	951,776	-	-	-	-
Intergovernmental receivables	10,521,829	-	-	-	-
Restricted cash with fiscal agent	5,040,828	-	-	-	-
Interfund balances	3,250,242	-	-	-	-
Due from other funds	-	-	-	-	-
Investment in joint venture	-	-	-	-	-
Prepaid items	256,947	-	-	-	-
Inventory	178,630	-	-	-	-
Other	2,187	-	-	-	-
Capital assets	-	1,631,215,475	-	-	-
Accumulated depreciation	-	-	(100,007,622)	-	-
Total assets	\$ 108,046,936	1,631,215,475	(100,007,622)	-	-
Liabilities and Fund Balances / Net Assets					
Liabilities:					
Accounts payable	\$ 5,066,434	-	-	-	-
Accrued payroll	4,713,544	-	-	-	-
Accrued interest payable	-	-	-	-	155,153
Deposits payable	2,967,365	-	-	-	-
Capital leases payable	-	-	-	-	-
Claims payable	-	-	-	-	-
Workers' compensation payable	-	-	-	-	-
Compensated absences payable	-	-	-	-	-
COP payable - current	-	-	-	-	-
Note payable - current	-	-	-	-	-
Deferred revenue	8,521,608	-	-	-	-
Interfund payables	-	-	-	-	-
Due to other funds	3,250,242	-	-	-	-
Long-term liabilities	-	-	-	25,724,133	-
Total liabilities	24,519,193	-	-	25,724,133	155,153
Fund balances / net assets	83,527,743	1,631,215,475	(100,007,622)	(25,724,133)	(155,153)
Total liabilities and and fund balances / net assets	\$ 108,046,936	\$ 1,631,215,475	(100,007,622)	-	-

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

<u>Investment in Joint Venture</u>	<u>Certain Deferred Revenue</u>	<u>Internal Service Funds</u>	<u>Reclassifications and Eliminations</u>	<u>Statement of Net Assets</u>
-	-	20,237,210	-	102,646,182
-	-	15,421	-	5,400,946
-	-	-	-	50,000
-	-	-	-	-
-	-	-	-	951,776
-	-	-	-	10,521,829
-	-	-	-	5,040,828
-	-	-	(3,250,242)	-
-	-	-	-	-
2,656,819	-	-	-	2,656,819
-	-	76,194	-	333,141
-	-	318,264	-	496,894
-	-	-	-	2,187
-	-	19,539,273	-	1,650,754,748
-	-	(12,535,725)	-	(112,543,347)
<u>2,656,819</u>	<u>-</u>	<u>27,650,637</u>	<u>(3,250,242)</u>	<u>1,666,312,003</u>
-	-	896,582	-	5,963,016
-	-	51,930	-	4,765,474
-	-	-	-	155,153
-	-	-	-	2,967,365
-	-	442,202	-	442,202
-	-	2,350,383	-	2,350,383
-	-	2,499,547	-	2,499,547
-	-	1,200,000	-	1,200,000
-	-	-	-	-
-	-	-	-	-
-	(6,616,282)	-	-	1,905,326
-	-	-	22,219	22,219
-	-	-	(3,250,242)	-
-	-	13,399,094	-	39,123,227
-	(6,616,282)	20,839,738	(3,228,023)	61,393,912
<u>2,656,819</u>	<u>6,616,282</u>	<u>6,810,899</u>	<u>(22,219)</u>	<u>1,604,918,091</u>
<u>2,656,819</u>	<u>-</u>	<u>27,650,637</u>	<u>(3,250,242)</u>	<u>1,666,312,003</u>

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

b. Explanation of Differences between Enterprise Funds and Government-wide Statement of Net Assets

Total net assets of the City's Enterprise Funds of \$115,678,013 differs from net assets of the business-type activities of \$115,700,232 reported in the government-wide statement of net assets. The difference, \$22,219 results from the consolidation of internal service fund activities related to the enterprise funds.

(2) Reconciliation of government-wide and fund financial statements

(b) Explanation of Differences between Enterprise Funds and Government-wide Statement of Net Assets, (Continued)

Assets	Total Enterprise Funds	Internal Service Funds	Government wide Statement of Net Assets
Cash and investments	\$ 19,311,046	\$ -	\$ 19,311,046
Receivables:			
Accounts	4,195,732	-	4,195,732
Restricted cash with fiscal agent	1,425,597		1,425,597
Interfund balances	-	22,219	22,219
Intergovernmental receivables	867,299		867,299
Capital assets, net	101,316,107	-	101,316,107
Total assets	\$ 127,115,781	\$ 22,219	\$ 127,138,000
Liabilities and Fund Balances / Net Assets			
Liabilities:			
Accounts payable	\$ 2,436,219	\$ -	\$ 2,436,219
Accrued payroll	209,186	-	209,186
Accrued interest payable	183,871	-	183,871
Interfund balances	-	-	-
Deposits payable	73,492	-	73,492
Noncurrent liabilities:			
Due within one year	1,280,000	-	1,280,000
Due in more than one year	7,255,000	-	7,255,000
Total liabilities	11,437,768	-	11,437,768
Net Assets			
Invested in capital assets, net of related debt	101,316,107	-	101,316,107
Restricted for debt service	-	-	-
Unrestricted	14,361,906	22,219	14,384,125
	\$ 115,678,013	\$ 22,219	\$ 115,700,232

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

c. Explanation of Differences between Governmental Fund Operating Statements and the Statement of Activities

The “net change in fund balances” for governmental funds \$5,577,724 differs from the “change in net assets” for governmental activities \$100,845,682 reported in the statement of activities. The differences arise primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds. The effect of the difference is illustrated below.

Capital Related Items

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In governmental funds, significant maintenance projects are reclassified as functional expenses in the statement of net assets. Also, contributed capital is not recorded in governmental funds; therefore it is added for the statement of net assets. Beginning net assets in the statement of activities has been changed to reflect a correction in valuation of infrastructure. See Note (18) for more information.

Capital outlay	\$5,032,590
Net change to Internal Service Fund capital assets	(4,953,586)
Contributed capital	<u>102,713,421</u>
Net change in capital related items	<u>\$102,792,425</u>
Depreciation expense	(\$8,535,061)
Deletions to accumulated depreciation	<u>986,262</u>
Net change in accumulated depreciation	<u>(\$7,548,799)</u>

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

Long-term Debt Transactions

Repayment of debt service is reported as an expenditure in governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. Issuance of debt is reported as an other financing source in governmental funds, thus increasing fund balance. For the City as a whole, however, the principal payments reduce the liabilities, and proceeds from long term debt increase liabilities in the statement of net assets.

Certificates of Participation	\$265,000
Note payable	143,350
Pre-annexation agreement	1,200,000
CDBG loan	<u>60,000</u>
Total principal payments made	<u>\$1,668,350</u>

Accrued Interest

Interest accrued on outstanding debt payable is not recorded as an expenditure in governmental funds, and, thus has been added to the statement of activities.

Net change in accrued interest	<u>\$7,266</u>
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Investment in Joint Venture

Investment in joint ventures creates an explicit, measurable equity interest reported only in the statement of activities.

Net change in investment in joint venture	<u>\$148,819</u>
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CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

Certain Deferred Revenue

Some of the revenue will be collected after year-end, but is not available soon enough to pay for current period's expenditures, and therefore is reported as deferred revenue in the governmental funds.

Net change in deferred revenue	<u>(\$4,709,236)</u>
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Internal Service Funds

Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance activities, to individual funds. The adjustments for internal service funds "closes" those funds by reimbursing or charging additional amounts to participating departments in individual funds for costs over or under charged for those activities.

Net change in Internal Service Funds	<u>\$2,120,213</u>
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Reclassification and Eliminations

Interfund balances must generally be eliminated in the government-wide financial statements, except for net residual amounts due between governmental and business-type activities. Any allocations must reduce the expenses of the function from which the expenses are being allocated, so that expenses are reported only once – in the function in which they are allocated. Amounts involving fiduciary funds should be reported as external transactions.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

(2) Reconciliation of Government-wide and Fund Financial Statements

(c) Explanation of Differences between Governmental Fund
Operating Statements and the Statement of Activities. (Continued)

	Total Governmental Funds	Capital Related Items	Accumulated Depreciation	Long-term Debt Transactions	Accrued Interest
Revenues:					
Taxes and assessments	\$ 79,874,751	\$ -	\$ -	\$ -	\$ -
Intergovernmental	16,108,023	-	-	-	-
Licenses and permits	5,429,632	-	-	-	-
Charges for services	11,516,782	-	-	-	-
Fines and forfeitures	3,605,963	-	-	-	-
Investment income	887,513	-	-	-	-
Net increase in fair value of investments	(360,586)	-	-	-	-
Property income	11,857,671	-	-	-	-
Share of joint venture net income	-	-	-	-	-
Donations	2,704,367	-	-	-	-
Contributed capital	-	102,713,421	-	-	-
Gain on sale of capital assets	-	-	-	-	-
Other	478,200	-	-	-	-
Total revenues	<u>132,102,316</u>	<u>102,713,421</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:					
Current:					
General government	11,024,256	-	208,258	-	-
Public safety	56,849,718	1,140,130	(622,864)	-	-
Public works	22,780,896	1,204,022	5,942,396	-	-
Community development	5,723,031	-	99,731	-	-
Community services	10,827,346	2,609,434	725,960	-	-
Capital outlay	15,188,550	(5,032,590)	-	-	-
Debt service:					
Principal retirement	1,668,350	-	-	(1,668,350)	-
Interest and fiscal charges	520,228	-	-	-	(7,266)
Total expenses	<u>124,582,375</u>	<u>(79,004)</u>	<u>6,353,481</u>	<u>(1,668,350)</u>	<u>(7,266)</u>
Other financing sources (uses):					
Transfers in	16,553,395	-	-	-	-
Transfers out	(18,495,612)	-	-	-	-
Proceeds from long-term debt	-	-	-	-	-
Total other financing sources (uses)	<u>(1,942,217)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances / net assets	5,577,724	102,792,425	(6,353,481)	1,668,350	7,266
Fund balances / net assets beginning of year, as restated	<u>77,950,019</u>	<u>1,528,423,050</u>	<u>(93,654,141)</u>	<u>(27,392,483)</u>	<u>(162,419)</u>
Fund balances / net assets, end of year	<u>\$ 83,527,743</u>	<u>\$ 1,631,215,475</u>	<u>\$ (100,007,622)</u>	<u>\$ (25,724,133)</u>	<u>\$ (155,153)</u>

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

<u>Investment in Joint Venture</u>	<u>Certain Deferred Revenue</u>	<u>Internal Service Fund</u>	<u>Reclassifications and Eliminations</u>	<u>Statement of Activities</u>
\$ -	\$ -	\$ -	\$ -	\$ 79,874,751
-	(4,709,236)	-	-	11,398,787
-	-	-	-	5,429,632
-	-	-	(404,398)	11,112,384
-	-	-	-	3,605,963
-	-	183,137	-	1,070,650
-	-	(81,631)	-	(442,217)
-	-	-	-	11,857,671
146,819	-	-	-	146,819
-	-	-	-	2,704,367
-	-	-	-	102,713,421
-	-	85,730	-	85,730
-	-	-	-	478,200
<u>146,819</u>	<u>(4,709,236)</u>	<u>187,236</u>	<u>(404,398)</u>	<u>230,036,158</u>
-	-	(45,109)	240,974	11,428,379
-	-	107,916	703,733	58,178,633
-	-	42,286	8,158,232	38,127,832
-	-	(40,134)	447,157	6,229,785
-	-	(27,100)	605,864	14,741,504
-	-	-	(10,155,960)	-
-	-	-	-	-
-	-	29,164	-	542,126
<u>-</u>	<u>-</u>	<u>67,023</u>	<u>-</u>	<u>129,248,259</u>
-	-	2,000,000	(18,495,612)	57,783
-	-	-	18,495,612	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	2,000,000	-	57,783
146,819	(4,709,236)	2,120,213	(404,398)	100,845,682
<u>2,510,000</u>	<u>11,325,518</u>	<u>4,690,686</u>	<u>382,179</u>	<u>1,504,072,409</u>
<u>\$ 2,656,819</u>	<u>\$ 6,616,282</u>	<u>\$ 6,810,899</u>	<u>\$ (22,219)</u>	<u>\$ 1,604,918,091</u>

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

d. Explanation of Differences between Enterprise Funds Operating Statement and the Statement of Activities

The change in net assets for the City's enterprise funds \$1,044,377 differs from the change in net assets of the business-type activities \$1,448,775 reported in the government-wide statement of activities. The difference \$404,398 results from the consolidation of internal service fund activities related to the enterprise funds.

(2) Reconciliation of Government-wide and Fund Financial Statement

(d) Explanation of Differences between Enterprise Funds Operating Statement and the Statement of Activities, (Continued)

	Total Enterprise Funds	Internal Service Fund	Business-type activities Statement of Activities
Operating revenues:			
Charges for sales and services:			
Water sales	\$ 16,656,037	\$ -	\$ 16,656,037
Intergovernmental	1,608,507	-	1,608,507
Sewer service and connection fees	2,867,925	-	2,867,925
Other	180,324	-	180,324
Total operating revenues	<u>21,312,793</u>	<u>-</u>	<u>21,312,793</u>
Operating expenses:			
Purchase of Water	7,194,252	-	7,194,252
Salaries and wages	4,277,303	-	4,277,303
Depreciation	1,763,398	-	1,763,398
Professional Services	1,741,844	-	1,741,844
Maintenance and supplies	1,086,648	(404,398)	682,250
System maintenance	1,891,840	-	1,891,840
Other	1,453,466	-	1,453,466
Total operating expenses	<u>19,408,751</u>	<u>(404,398)</u>	<u>19,004,353</u>
Operating income	1,904,042	404,398	2,308,440
Nonoperating revenues (expenses):			
Investment income	203,041	-	203,041
Net increase in fair value of investments	(87,078)	-	(87,078)
Property income	29,280	-	29,280
Loss on removal of fixed assets	(789,807)	-	(789,807)
Interest expense	(367,743)	-	(367,743)
Other	(4,906)	-	(4,906)
Total other financing sources	<u>(1,017,213)</u>	<u>-</u>	<u>(1,133,176)</u>
Income before transfers	886,829	404,398	1,175,264
Capital contributions	215,331	-	215,331
Transfers out	<u>(57,783)</u>	<u>-</u>	<u>(57,783)</u>
Change in net assets	1,044,377	404,398	1,448,775
Net assets, beginning of year	116,521,963	(382,179)	116,139,784
Restatement	<u>(1,888,327)</u>	<u>-</u>	<u>(1,888,327)</u>
Net assets, beginning of year, as restated	114,633,636	(382,179)	114,251,457
Net assets, end of year	<u>\$ 115,678,013</u>	<u>\$ 22,219</u>	<u>\$ 115,700,232</u>

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

(3) Budgetary Control and Compliance

The City adheres to the following general procedures in establishing the budgetary data reflected in the financial statements:

- During April, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted at City Council meetings to obtain taxpayer comments. Prior to July 1, the budget is legally adopted through passage of an appropriation resolution.
- Budgets are adopted on an annual basis consistent with generally accepted accounting principles for General and Special Revenue Funds.
- The City of Newport Beach does not present budget information on Capital Projects Funds since the City approved project-length budgets. These project-length budgets authorize total expenditures over the duration of a construction project rather than year-by-year budgeting.
- The City of Newport Beach does not present budget information on Debt Service Fund since the City is not required to and does not adopt an annual budget.
- The budget is formally integrated into the accounting system and employed as a management control device during the year.
- The legal level of budgetary control is at the fund level. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions which alter the total appropriations of any fund must be approved by City Council.
- At fiscal year-end, budget appropriations lapse. Budget appropriations for incomplete capital projects are re-budgeted in the following fiscal year by Council action and are included in the revisions noted above. Projects that are not started during the budget year are reevaluated in the following year.
- Encumbrances represent commitments related to unperformed contracts for goods and services. The City utilizes an encumbrance system as a management control technique to assist in controlling expenditures. Under this system, encumbrance accounting for the expenditure of funds is recorded in order to indicate outstanding commitments and is employed in the governmental fund types. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities. Encumbrances and their related budgets are honored in the subsequent year to fulfill these commitments and are presented in the original adopted budget.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

Expenditures exceeded appropriations in the following non-major governmental funds.

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
Air Quality Management District	\$ 25,000	\$ 96,003	\$ (71,003)
Miscellaneous Grants	\$ 40,000	\$ 42,423	\$ (2,423)
Supplemental Law Enforcement	\$ 119,171	\$ 119,411	\$ (240)

The following funds reported deficit fund balances:

Special Revenue Funds

Contributions	\$ 956,689
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Capital Projects Funds

Assessment Districts	\$ 171,619
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Internal Service Funds

Insurance Reserve	\$3,390,487
Compensated Absences	\$6,236,986

(4) Cash and Investments

The City has elected to pool all cash and investments of all funds, except for funds required to be held by outside fiscal agents under the provisions of certificates of participation.

Cash and investments (including cash and investments with fiscal agents) at June 30, 2004, consisted of the following:

Governmental activities	\$ 107,687,010
Business-type activities	20,736,643
Fiduciary funds	<u>4,465,455</u>
Total	<u><u>\$ 132,889,108</u></u>

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

Total carrying value of cash and investments at June 30, 2004, consisted of the following:

Pooled cash deposits	\$ 2,331,394
Pooled investments	<u>122,825,217</u>
Total unrestricted cash and investments	125,156,611
Restricted cash and investments:	
Cash and investments with fiscal agents	<u>7,732,497</u>
Total cash and investments	<u><u>\$ 132,889,108</u></u>

Authorized Deposits/Investments

Under the provisions of the City's investment policy, and in accordance with Section 53601 of the California Government Code, the City may deposit and invest in the following:

- Certificates of Deposit (or Time Deposits)
- Negotiable Certificates of Deposit
- Bankers Acceptances
- U.S. Treasury Issues
- Securities of Federal Agencies and Federal Instrumentalities
- Commercial paper
- Repurchase Agreements and Reverse Repurchase Agreements
- Passbook Savings Accounts
- Local Agency Investment Fund (State of California Investment Pool)
- County Investment Pools (Los Angeles)
- Money Market Funds/Mutual Funds
- Medium Term Corporate Bonds/Notes
- Mortgage-backed securities and Asset-backed securities
- Municipal Bonds

The City investment policy contains several additional requirements, including the following investment limitations (as a percentage of the total portfolio): 10% for certificates of deposit, 30% for negotiable certificates of deposit, 30% for bankers acceptances, 25% for commercial paper, 10% for reverse repurchase agreements, 5% for the Los Angeles County investment pool, 30% for medium term notes, 20% for asset-backed securities, 15% for municipal bonds, and 20% for money market funds.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

Deposits

Deposits consist of cash and demand deposits accounts. Deposits in banks are maintained in financial institutions that provide Federal Depository Insurance Corporation protection on the bank balances. The California Government Code requires California banks and savings and loan associations to secure a city's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of a city's deposits. California law also allows financial institutions to secure city deposits by pledging first trust deed mortgage notes having a value of 150% of a city's total deposits. The City may waive collateral requirements for deposits that are fully insured up to \$100,000 by federal depository insurance.

The City's deposits at year-end are categorized below to give an indication of the level of credit risk assumed by the City in three categories as follows:

- Category 1 Insured or collateralized with securities held by the City or its agent in the City's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 Uncollateralized.

As of June 30, 2004, the City's deposit balances were as follows:

	Category			Bank	Carrying
	1	2	3	Balance	Amount
Petty Cash	\$ -	\$ -	\$ -	\$ -	\$ 28,232
Deposits:					
Demand deposits	300,000	2,859,161	-	3,159,161	2,303,162
Total deposits	<u>\$ 300,000</u>	<u>\$ 2,859,161</u>	<u>\$ -</u>	<u>\$ 3,159,161</u>	<u>\$ 2,331,394</u>

Investments

The investments that are represented by specific identifiable investment securities are classified as to credit risk by three categories as follows:

- Category 1 Insured, registered, or securities held by the City or its agent in the City's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

The City's investments at June 30, 2004, are summarized below for the credit risk and carrying amounts:

	Category			Carrying Amount
	1	2	3	
Pooled Investments				
U.S. Treasury Notes	\$ -	\$ 25,308,675	\$ -	\$ 25,308,675
Federal Home Loan Bank	-	24,526,871	-	24,526,871
Federal Farm Credit Bank	-	1,237,660	-	1,237,660
Federal Home Loan Mortgage Corporation	-	20,773,967	-	20,773,967
Federal National Mortgage Association	-	27,635,434	-	27,635,434
Other Government Securities	-	971,400	-	971,400
Money market funds*	-	-	-	1,175,874
Medium term notes	-	11,486,691	-	11,486,691
Commercial Paper	-	4,644,704	-	4,644,704
State of California:				
Local Agency Investment Fund*	-	-	-	5,063,942
Total pooled investments	<u>\$ -</u>	<u>\$ 116,585,402</u>	<u>\$ -</u>	<u>\$ 122,825,217</u>
Investments with fiscal agents:				
Mutual funds invested in US Government Securities*				<u>\$ 7,732,497</u>

* Not subject to categorization.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

(5) Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

Governmental Activities:

	Beginning Balance, as Restated	Additions	Deletions	Balance June 30, 2004
Non-depreciable:				
Land	\$ 1,219,744,818	\$ 97,537,247	\$ (2,442,416)	\$ 1,314,839,649
Work in progress	11,762,360	3,375,944	(11,118,561)	4,019,743
Depreciable:				
Structures	30,962,194	3,656,020	(167,018)	34,451,196
Equipment	21,701,565	1,225,219	(547,632)	22,379,152
Infrastructure	263,198,888	13,070,142	(1,204,022)	275,065,008
	<u>1,547,369,825</u>	<u>118,864,572</u>	<u>(15,479,649)</u>	<u>1,650,754,748</u>
Less accumulated depreciation for:				
Structures	(8,811,284)	(637,049)	66,807	(9,381,526)
Equipment	(13,086,801)	(2,138,580)	557,190	(14,668,191)
Infrastructure	(83,096,463)	(5,759,432)	362,265	(88,493,630)
	<u>(104,994,548)</u>	<u>(8,535,061)</u>	<u>986,262</u>	<u>(112,543,347)</u>
Net	<u>\$ 1,442,375,277</u>	<u>\$ 110,329,511</u>	<u>\$ (14,493,387)</u>	<u>\$ 1,538,211,401</u>

Beginning balance has been restated to include correction of value of infrastructure and related accumulated depreciation. See Note (18) for further discussion.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

Business-type Activities:

	Beginning Balance, as Restated	Additions	Deletions	Balance June 30, 2004
Non-depreciable:				
Land	\$ 2,016,450	\$ -	\$ -	\$ 2,016,450
Work in progress	4,018,136	2,668,386	(4,013,946)	2,672,576
Depreciable:				
Structures	205,793	-	-	205,793
Equipment	132,246	15,945	-	148,191
Infrastructure	133,261,781	5,410,050	(1,022,665)	137,649,166
	<u>139,634,406</u>	<u>8,094,381</u>	<u>(5,036,611)</u>	<u>142,692,176</u>
Less accumulated depreciation for:				
Structures	(86,450)	(5,145)	-	(91,595)
Equipment	(130,070)	(1,088)	-	(131,158)
Infrastructure	<u>(39,629,009)</u>	<u>(1,757,165)</u>	<u>232,858</u>	<u>(41,153,316)</u>
	<u>(39,845,529)</u>	<u>(1,763,398)</u>	<u>232,858</u>	<u>(41,376,069)</u>
Net	<u>\$ 99,788,877</u>	<u>\$ 6,330,983</u>	<u>\$ (4,803,753)</u>	<u>\$ 101,316,107</u>

Beginning balance has been restated to include correction of work in progress, City-owned water and sewer lines, and related accumulated depreciation. See Note (18) for further discussion.

Depreciation expense was charged in the following functions in the Statement of Activities:

	Governmental Activities	Business-type Activities
General government	\$ 208,258	\$ -
Public safety	1,129,644	-
Public works	6,304,661	-
Community development	99,731	-
Community service	792,767	-
Water	-	1,250,879
Wastewater	-	512,519
	<u>\$ 8,535,061</u>	<u>\$ 1,763,398</u>

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

(6) Long-Term Debt

Changes in Long-Term Liabilities

Long-term liability for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Certificates of participation payable	\$ 6,110,000	\$ -	\$ (265,000)	\$ 5,845,000	\$ 275,000
Note payable	2,082,483	-	(143,350)	1,939,133	149,801
Pre-annexation agreement	16,800,000	-	(1,200,000)	15,600,000	1,200,000
CDBG Loan	2,400,000	-	(60,000)	2,340,000	64,000
Capital leases payable	1,293,586	-	(430,611)	862,975	442,202
Workers' compensations payable	7,326,000	5,433,852	(4,366,625)	8,393,227	2,499,547
Claims and judgements payable	4,285,236	416,109	(1,862,345)	2,839,000	2,350,383
Compensated absences	8,139,727	574,941	(918,644)	7,796,024	1,200,000
Total governmental activities	48,437,032	6,424,902	(9,246,575)	45,615,359	8,180,933
Business-type activities:					
Water Revenue Bonds payable	9,765,000	-	(1,230,000)	8,535,000	1,280,000
Total	\$ 58,202,032	\$ 6,424,902	\$ (10,476,575)	\$ 54,150,359	\$ 9,460,933

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. Also, liabilities for workers' compensation, claims and judgments, and compensated absences are typically liquidated from the Internal Service funds through resources collected from individual funds.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

Governmental Activities

- Certificates of Participation

In Fiscal Year 1998-99, the Newport Beach Public Facilities Corporation issued \$7,330,000 of Refunding Certificates of Participation to advance refund the 1992 Certificates of Participation used to finance the construction of the Central Library. The refunding was undertaken to reduce total debt service payments over the next twenty years by \$690,228 and resulted in an economic gain of \$495,745. The Refunded Certificates were executed and delivered pursuant to the Prior Trust Agreement. The City has previously entered into a project lease with the Newport Beach Public Facilities Corporation to lease certain property, facilities, improvements, and equipment.

The lease payments made by the City are held by a trustee who makes semi-annual payments on the Certificates of Participation. The lease payments began May 15, 1994, and are in amounts sufficient to cover the payment of principal and interest of the Certificates. The 1998 Certificates consist of \$2,995,000 of Serial Certificates with interest rates from 3.6% to 4.55% and \$4,335,000 of Term Certificates with interest rates from 5.05% to 5.15%. Interest on the Certificates is payable semiannually on June 1 and December 1 of each year. Future principal payments range from \$275,000 to \$535,000 through June 1, 2019. Principal payments are payable annually on June 1 of each year. At June 30, 2004, the City has a required cash reserve balance for debt service of \$566,157, which is recorded as a restricted asset and reservation of fund balance in the Debt Service Fund. The outstanding balance at June 30, 2004, amounted to \$5,845,000.

The annual amortization requirements of the Certificates of Participation are as follows:

Year Ending June 30	Principal	Interest	Total
2005	\$ 275,000	\$ 286,688	561,688
2006	290,000	275,000	565,000
2007	300,000	262,530	562,530
2008	315,000	249,480	564,480
2009	330,000	235,462	565,462
2010-2014	1,905,000	919,428	2,824,428
2015-2019	2,430,000	386,435	2,816,435
	<u>\$ 5,845,000</u>	<u>\$ 2,615,023</u>	<u>\$ 8,460,023</u>

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

- Note Payable

Note payable consists of a note to the California Department of Boating and Waterways in 1987 for a loan in the amount of \$3,300,000. The note is payable in thirty annual principal and interest installments of \$237,062 at 4.5% rate of interest beginning August 1, 1987. The outstanding balance at June 30, 2004, amounted to \$1,939,132.

The annual amortization requirements for the Note Payable are as follows:

Year Ending June 30	Principal	Interest	Total
2005	149,801	87,261	237,062
2006	156,542	80,520	237,062
2007	163,587	73,475	237,062
2008	170,948	66,114	237,062
2009	178,641	58,421	237,062
2010-2014	1,021,259	164,041	1,185,300
2015-2016	98,354	6,688	105,042
	<u>\$ 1,939,132</u>	<u>\$ 536,520</u>	<u>\$ 2,475,652</u>

- Newport Coast Pre-Annexation Agreement Payable

In conjunction with the January 1, 2002, annexation of Newport Coast, the City entered into an agreement payable with the Newport Coast Committee for a total of \$18,000,000 to reduce property owner assessments used to finance certain road and street improvements. The principal-only agreement which began in the 2003 fiscal year, is payable over a period of fifteen years in equal installments of \$1,200,000. The outstanding balance at June 30, 2004, amounted to \$15,600,000.

- CDBG Loan

In fiscal year 2003, the City received \$2,400,000 in Section 108 loan proceeds to assist with the funding for the Balboa Village Improvement Program. The loan is collateralized by future Community Development Block Grant allocations with an average interest rate of 6.5%. Future principal payments range from \$64,000 to \$208,000 through June 30, 2023. The outstanding balance at June 30, 2004, amounted to \$2,340,000.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

The annual amortization requirements for the CDBG Loan are as follows:

Year Ending June 30	Principal	Interest	Total
2005	64,000	122,301	186,301
2006	69,000	120,514	189,514
2007	73,000	118,224	191,224
2008	78,000	115,482	193,482
2009	84,000	112,253	196,253
2010-2014	510,000	495,741	1,005,741
2015-2019	706,000	334,880	1,040,880
2020-2023	756,000	95,595	851,595
	<u>\$ 2,340,000</u>	<u>\$ 1,514,990</u>	<u>\$ 3,854,990</u>

- Capital Leases

Rolling Stock Leases - Equipment Maintenance Internal Service Fund: In fiscal year 2003, the City entered into a lease-purchase agreement, payable monthly, as lessee for financing the acquisition of heavy duty street maintenance vehicles and fire trucks. The term of the lease is five years and the interest rate for the lease is 2.72%. The lease agreement qualifies as a capital lease for accounting purposes as the title transfers at the end of the lease term or the lease contains a bargain purchase option, and therefore have been recorded at the present value of their future minimum lease payment as of the inception date. The assets acquired through capital leases, totaling \$6,754,827, were classified as equipment in the Equipment Maintenance Internal Service Fund.

Future minimum lease payments under the leases are as follows:

Year Ending June 30	Payments
2005	\$ 459,776
2006	261,321
2007	119,567
2008	49,820
Total minimum lease payments	890,484
Less: amount representing interest	(27,509)
Present value of future minimum lease payments	<u>\$ 862,975</u>

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

- Claims and Judgments

The City retains the risk of loss for general liability and workers' compensation claims as described in note (8). These amounts represent estimates of amounts to be paid for reported general liability and workers' compensation claims including incurred-but-not-reported claims based upon past experience, modified for current trends and information. While the ultimate amount of losses incurred through June 30, 2004, is dependent on future developments, based upon information from the City's attorneys, the City's claims administrators and others involved with the administration of the programs, City management believes the accrual is adequate to cover such losses. The estimated liability at June 30, 2004, for general liability amounted to \$2,839,000 and for workers' compensation was \$8,393,227.

- Compensated Absences

The City's policies relating to compensated absences are described in Note (1). This liability, to be paid in future years from available and future resources, at June 30, 2004, is \$7,796,024.

Business-type activities

- Water Revenue Bonds

In Fiscal Year 1998-99, the City issued \$14,225,000 of Refunding Water Revenue Bonds to refund the 1994 Water Revenue Bonds used to finance the construction and acquisition of water storage and transmission facilities. The refunding was undertaken to reduce total debt service payments over a ten-year period by \$481,153 and resulted in an economic gain of \$418,469. The bonds are secured by a pledge of net revenues of the water fund. The 1998 Serial Bonds bear interest ranging from 3.6% to 4.5%. At June 30, 2004, the City has a required cash reserve balance of \$1,425,597 which is recorded as a restricted asset. Ten annual principal payments are payable on August 1, and semiannual interest payments are payable on February 1 and August 1. At June 30, 2004, the outstanding principal balance was \$8,535,000, and accrued interest payable was \$183,871.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

The annual amortization requirements for the Water Revenue Bonds are as follows:

Year Ending June 30	Principal	Interest	Total
2005	\$ 1,280,000	\$ 341,183	\$ 1,621,183
2006	1,330,000	286,693	1,616,693
2007	1,385,000	229,331	1,614,331
2008	1,445,000	168,833	1,613,833
2009	1,510,000	104,545	1,614,545
2010	1,585,000	35,663	1,620,663
	<u>\$ 8,535,000</u>	<u>\$ 1,166,248</u>	<u>\$ 9,701,248</u>

(7) Limited Obligation Bonds

Special Assessment Districts Bonds

The City has issued certain Assessment District and Community Facilities District Bonds. Although the City collects and disburses funds for these districts, the City has no obligation or duty to pay any delinquency out of any available funds of the City. Neither the faith and credit nor the taxing power of the City is pledged to the payment of the bonds, and therefore the bonded indebtedness is not shown in the financial statements of the City. The City holds reserve funds on behalf of bondholders; the assets are recorded in the Special Assessment Agency Fund. Bonds outstanding at June 30, 2004 for each district under the Bond Acts of 1911 and 1915, and other special assessments, are as follows:

<u>Assessment District</u>	<u>Original Issue</u>	<u>Bonds Outstanding June 30, 2004</u>
No. 59 McFadden Square	\$ 530,609	\$ 150,000
No. 60 Bay Avenue	236,533	70,000
No. 61 East Bay Front	127,299	35,000
No. 62 Hazel Drive	335,210	95,000
No. 63 Newport Island	536,531	195,000
No. 64 Channel Road	180,794	85,000
No. 65 Rocky Point	53,125	16,000
No. 66 East Newport	171,911	75,000
No. 67 CDM Blk-133	64,431	37,000
No. 70 Bay Shores	1,380,996	1,380,996
No. 71 Balboa Boulevard	796,942	550,000
No. 72 Balboa Coves	192,908	120,000
No. 74 Island Avenue	222,629	200,000
No. 78 Little Balboa Island	1,348,196	1,145,000
No. 79 Beacon Bay	1,215,134	1,120,000
No. 82 Corona del Mar	274,967	245,000
No. 86 Balboa Peninsula	300,174	300,174
No. 95-1 CIOSA Refunding Series A	15,495,000	14,310,000

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

Other Limited Obligation Bonds

The City has issued revenue bonds for the purpose of advancing the net proceeds of the bonds to Hoag Memorial Hospital Presbyterian for the purposes of financing the acquisition, construction and equipping of health facilities located within the City.

The bonds are limited obligations of the City payable from payments required to be made by Hoag Memorial Hospital. The City is not obligated to pay the principal or interest of the bonds except from payments made by Hoag, and neither the faith and credit nor the taxing power of the City is pledged to the payment of the principal and interest on the bonds.

Bonds outstanding at June 30, 2004 are as follows:

Series 1992	\$ 91,000,000
Series 1996	100,000,000
Series 1999	125,000,000

The revenue bonds are subject to, at the option of Hoag Memorial Hospital Presbyterian, optional and mandatory tender for purchase. If no tender or purchase is made, varying redemption payments on the 1992 bonds commence on October 1, 2013 and are required to be made through October 1, 2022. For the Series 1996 bonds, if no tender for purchase is made, redemption is required to be made on October 1, 2026. If no tender or purchase is made for the Series 1999 bonds, redemption is required to be made on December 1, 2029.

(8) Risk Management – General Liability and Workers' Compensation

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City carries commercial insurance with independent third parties for loss risks associated with real and personal property, and automotive liability. The City purchases fidelity bonds for employees in key positions. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. For general liability, the City has excess insurance coverage of \$25 million per occurrence with a self-insured retention (SIR) of \$500,000 per occurrence.

For workers' compensation and employer's liability insurance, the City has excess insurance coverage of \$1,000,000 per occurrence with a \$300,000 SIR. This coverage provides for work-related accidents and diseases.

The Insurance Reserve fund was established to account for costs associated with general liability, workers' compensation, and compensated absence benefits. The Insurance Reserve fund is accounted for as an internal service fund where assets are set aside for risk management, administration, claim settlements and benefit

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

distribution. A premium is charged to each fund that accounts for part-time or full-time employees. The total charge allocated to each of the funds is calculated using trends in actual experience after considering unexpected and unusual claims.

Fund Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts and other economic and social factors. The total liability claims payable include \$11,232,227 which represents the discounted present value at June 30, 2004; the claims were discounted using an interest rate of five percent.

	<u>General Liability</u>		<u>Workers' Compensation</u>	
	<u>June 30, 2003</u>	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>June 30, 2004</u>
Unpaid claims, beginning of fiscal year	\$ 3,270,000	\$ 4,285,236	\$ 6,431,000	\$ 7,326,000
Incurred claims (including IBNR)	6,283,585	416,109	4,403,179	5,433,852
Claim payments	<u>(5,268,349)</u>	<u>(1,862,345)</u>	<u>(3,508,179)</u>	<u>(4,366,625)</u>
Unpaid claims, end of fiscal year	<u>\$ 4,285,236</u>	<u>\$ 2,839,000</u>	<u>\$ 7,326,000</u>	<u>\$ 8,393,227</u>

For the past three years, no payment on any claim or judgment has exceeded the amount of applicable insurance.

(9) Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years.

Section 457 plan assets were placed in trust for the exclusive benefit of all employees and their beneficiaries. Therefore, all employee assets held in Section 457 plans are not the property of the City and are not subject to the claims of the City's general creditors. The assets under the plan, which are not included in the accompanying financial statements, totaled \$48,589,186 at June 30, 2004.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

(10) Pension Plan

Plan Description - Defined Benefit Plan

The City contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

Funding Policy

Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current rate is 0.00% for non-safety employees and 17.584% for safety employees of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost

For 2004, the City's annual pension cost of \$8,883,565 for PERS was equal to the City's required and actual contributions. A summary of principle assumptions and methods used to determine the annual required contribution is shown below:

	<u>Miscellaneous Plan</u>	<u>Safety Plan</u>
<i>Valuation Date</i>	June 30, 2003	June 30, 2003
<i>Actuarial Cost Method</i>	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method
<i>Amortization Method</i>	Level Percent of Payroll	Level Percent of Payroll
<i>Average Remaining Period</i>	15 Years as of the Valuation Date	18 Years as of the Valuation Date
<i>Asset Valuation Method</i>	3 Year Smoothed Market	3 Year Smoothed Market
<i>Actuarial Assumptions</i>		
<i>Investment Rate of Return</i>	7.75% (net of administrative expenses)	7.75% (net of administrative expenses)
<i>Projected Salary Increases</i>	3.25% to 14.45% depending on age, service, and type of employment	3.25% to 13.15% depending on age, service, and type of employment

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June 30, 2004

<i>Inflation Rate</i>	3.00%	3.00%
<i>Payroll Growth</i>	3.25%	3.25%
<i>Post Retirement Benefit Increases</i>	2.00% per year cost-of-living adjustments	2.00% per year cost-of-living adjustments

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percent of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

THREE-YEAR TREND INFORMATION FOR PERS (\$ Amount in Thousands)

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/02	\$5,020	100%	\$0
6/30/03	\$6,283	100%	\$0
6/30/04	\$8,884	100%	\$0

CITY OF NEWPORT BEACH
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June 30, 2004

SCHEDULE OF FUNDING PROGRESS FOR PERS (\$ Amount in Thousands)

Valuation Date	Entry Age Normal Accrued Liability (A)	Actuarial Value of Assets (B)	Unfunded Liability (Excess Assets) (A - B)	Funded Status (B / A)	Annual Covered Payroll (C)	UAAL as a % of Payroll [(A-B) / C]
06/30/2001						
Misc.	\$110,252	\$141,132	(\$30,880)	128.0%	\$26,865	(114.945%)
Safety	197,338	195,209	2,129	98.9%	21,816	9.759%
Total	<u>\$307,590</u>	<u>\$336,341</u>	<u>(\$28,751)</u>	<u>109.3%</u>	<u>\$48,681</u>	<u>(59.060%)</u>
06/30/2002						
Misc.	\$120,030	\$132,552	(\$12,522)	110.4%	\$29,910	(41.866%)
Safety	212,722	184,202	\$28,520	86.6%	22,955	124.243%
Total	<u>\$332,752</u>	<u>\$316,754</u>	<u>\$15,998</u>	<u>95.2%</u>	<u>\$52,865</u>	<u>30.262%</u>
06/30/2003						
Misc.	\$139,983	\$134,113	\$5,870	95.8%	\$31,586	18.584%
Safety	229,155	188,309	40,846	82.2%	23,941	170.611%
Total	<u>\$369,138</u>	<u>\$322,422</u>	<u>\$46,716</u>	<u>87.3%</u>	<u>\$55,527</u>	<u>84.132%</u>

More current information regarding actuarial data is not yet available from PERS.

Plan Description - Defined Contribution Plan

As of January 1, 1992, the City entered into a defined contribution plan with Public Agency Retirement System ("PARS") for all of its part-time employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. All part-time employees are eligible to participate from the date of employment. Federal legislation requires contributions of at least 7.5% to a retirement plan, and City Council resolved to match the employees' contributions of 3.75%. The City's contributions for each employee (and interest earned by the accounts) are fully vested immediately.

For the year ended June 30, 2004, the City's covered payroll for employees participating in the plan was \$2,714,124. The City made employer contributions of \$101,780 (3.75% of current covered payroll). Assets of the plan totaled \$1,668,612 at June 30, 2004.

(11) Post-Employment Health Care Benefits

As established by a City Council approved Memorandum of Understanding between the City and its employees, the City provides post-employment health care benefits. Employees who retire from the City with seven years of service and participate in PERS retirement are eligible to receive health care benefits covering themselves and a

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

qualified family member from the City's insurance carriers, Health Net and PERS. The City pays 50% of the total plan premiums while the active and retired employees split the remaining premium at a rate of 25% each. This program is funded on a pay-as-you-go basis. As of June 30, 2004, 312 retirees are enrolled in City's health plans out of the 589 retirees eligible to receive benefits.

In July 2000, the City established a program to begin setting resources aside to fund the "promise to pay" current active employees this future benefit. The City contributes \$20 per month to this fund and the active employees each contribute \$10 per month. Contributions will continue until the projected liability is satisfactorily funded, approximately 30 years.

The City's expenditure for post-employment health care benefits for the past three fiscal years are as follows:

Year Ending June 30	Post-employment Health Care Expenditure
2002	\$ 706,538
2003	\$ 844,316
2004	\$1,017,692

(12) Interfund Receivables and Payables

At June 30, 2004, interfund receivables and payables were as follows:

	<u>Due From</u>	<u>Due to</u>
General Fund	\$ 3,250,242	\$ -
Nonmajor funds	<u>-</u>	<u>3,250,242</u>
Total	<u><u>\$ 3,250,242</u></u>	<u><u>\$ 3,250,242</u></u>

Interfund receivables and payables were created in order to eliminate deficit cash balances in special revenue and capital projects funds.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

(13) Interfund Transfers

Interfund transfers at June 30, 2004, consisted of the following:

		Transfers In:					
		General Fund	Tide and Submerged Land	Newport Coast Annexation Fund	Insurance Reserve Fund	Non-major Funds	Total
Transfers Out	General Fund	\$ -	\$ 13,160,502	\$ -	\$ 2,000,000	\$ 1,254,559	\$ 16,415,061
	Non-major Funds	160,000	-	-	-	671,432	831,432
	Newport Coast Annexation Fund	49,119	-	1,200,000	-	-	1,249,119
	Water Fund	50,258	-	-	-	-	50,258
	Wastewater Fund	7,525	-	-	-	-	7,525
Total		\$ 266,902	\$ 13,160,502	\$ 1,200,000	\$ 2,000,000	\$ 1,925,991	\$ 18,553,395

The City typically uses transfers to fund ongoing subsidies. The general fund transferred \$13,160,502 to subsidize for the maintenance and operation of the Tide and Submerged Land Fund. As required by the pre-annexation agreement, interest accrued in the amount of \$49,119 in the Newport Coast Annexation fund, but is due to and was subsequently transferred to the General Fund.

(14) Reserved and Designated Fund Balances

The City has set up "reserves" of fund equity to segregate fund balances which are not appropriable for expenditure in future periods, or which are legally set aside for a specific future use. Fund "designations" also may be established to indicate tentative plans for financial resource utilization in a future period.

The following provides explanations as to the nature and purpose of each reserve and designation.

Reserved for encumbrances

Amounts reserved for encumbrances are commitments for materials and services on purchase orders and contracts that are legally committed but not expended by fiscal year end.

Reserved for debt service

This account sets aside a portion of fund balance to meet the annual debt service requirements.

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June 30, 2004

Reserved for permanent endowment

This account reflects a permanent endowment established for the maintenance and dredging of Upper Newport Bay.

Reserved for prepaid items

This account reflects prepaid items which are not available, spendable resources.

Reserved for inventories

This account reflects the value of inventories purchased by the City but not yet issued to the operating departments.

Reserved for long-term receivable

This account reflects the value of the note receivable which is not an available and spendable resource.

Designated for special projects

This account reflects funds that have been designated for special projects which vary in nature.

Designation for stabilization

This account stabilizes fluctuating revenues and expenditures, providing stability by smoothing out year-to-year volatility in the City's finances.

Designated for contingencies

Contingency designations represent funds for unexpected emergencies.

Designated for capital projects

This account reflects unspent appropriations committed to capital projects in the prior year.

(15) Joint Venture Agreements

Bonita Canyon Public Facilities Financing Authority

The Bonita Canyon Public Facilities Financing Authority (Authority) is a joint venture formed by the City of Newport Beach, Irvine Unified School District, and Newport-Mesa Unified School District. The Authority's Board is comprised of two members appointed by each of the member agencies. The Authority created Community Facilities District 98-1 to finance public facilities that will benefit the properties within their boundaries. The Authority issued \$45,000,000 of special tax bonds that will be repaid by special assessments; the City is not obligated in any manner to repay the bonds. The Authority paid the City \$30,577,712 (81.7%) to pay for the costs of acquiring and constructing public facilities including parks and road improvements. At June 30, 2004, the remaining bond proceeds are held in trust as restricted cash totaling \$922,025. The City does not make any annual contributions to this joint venture. The City does not include the Authority as a component unit, as the City is not financially accountable for the

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

Authority's activities and the Authority is not fiscally dependent on the City. The City's equity interest in this joint venture is not readily determinable. Complete separate financial statements can be obtained at the Newport Mesa Unified School District, 2985 Bear Street, Suite 8M, Costa Mesa, California.

Air Borne Law Enforcement

The City is a participant in a joint venture agreement with the City of Costa Mesa for the operation of the Air Borne Law Enforcement program (ABLE). The oversight Board consists of the Chiefs of Police of Costa Mesa and Newport Beach and one appointee for each Member Agency for a total of four (4) Board Members. The Cities have a 50 percent interest in the venture, with each City having provided an initial investment of two helicopters and related equipment. The City of Newport Beach's cost of participating in the ABLE program is recorded in the General Fund, which provides for the maintenance and operation of the program as well as replacement of capital equipment used in the operation of the program. Annually, the amounts paid by the City to this joint venture are approximately \$500,000. Operation costs are offset by fees collected from surrounding cities that may subscribe to regular patrol or request assistance on an as-needed basis. Shared equally between the Cities of Newport Beach and Costa Mesa, the City's share of net income from subscribers and other cities amounts to \$146,819 for fiscal year 2003-04. The City's 50% interest in the net equity of this joint venture at June 30, 2004, amounts to \$2,656,819. Complete separate financial statements can be obtained at the City of Costa Mesa at 77 Fair Drive, Costa Mesa, California.

Central Net

The City of Newport Beach withdrew from its membership in a joint venture agreement with the Cities of Huntington Beach and Fountain Valley for the operation of the Central Net Training facility on September 30, 2003. The oversight board consisted of the existing City Manager of each City and as an alternate, the Fire Chief of each City. The City of Newport Beach's costs were based on the number of personnel using the training facilities and was recorded in the General Fund as an expenditure for service. The City did not have a material measurable equity interest in the joint venture. Upon termination of the agreement, the property and assets of the joint venture became the property of the City of Huntington Beach. The amount paid by the City to the joint venture for the quarter ending September 30, 2003, was \$36,869. Complete financial statements can be obtained at the Central Net offices at 18301 Gothard Street, Huntington Beach, California.

Metro Cities Fire Authority

The City of Newport Beach is a Member of a joint venture agreement with the Cities of Anaheim, Fountain Valley, Fullerton, Garden Grove, Huntington Beach, and Orange for the operation of a communication network to provide fire suppression, emergency medical assistance, and rescue services. The oversight board consists of one voting member and one alternate appointed by the governing body of each member agency. The City of Newport Beach's costs are based each fiscal year upon the number of

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

recorded incidents attributable to the City divided by the recorded incidents attributable to all members during the year and, are recorded in the General Fund as an expenditure for service. Upon termination of the agreement, the proceeds from the sale of the property and assets of the joint venture will be paid to each member agency pursuant to their fair share percentage. Annually, the amounts paid by the City to this joint venture are approximately \$376,806. The City's 9.95% interest in the net equity of this joint venture at June 30, 2004, amounts to \$80,229. Complete separate financial statements can be obtained at the Metro Cities Fire Authority offices at 201 S. Anaheim Boulevard, Suite 302, Anaheim, California.

(16) Special Item

Capital Contributions

Annexations

In late 2002, the Orange County Local Agency Formation Commission (LAFCO) certified and approved a reorganization plan that allowed the City to annex two unincorporated areas within or adjacent to the City's sphere of influence. The areas are known as eastern Santa Ana Heights and Bay Knolls. The services that the City is providing to the annexed areas include law enforcement, fire, paramedic, animal control, library, recreation, public works, general maintenance, and administrative services. The services to Santa Ana Heights and Bay Knolls commenced on July 1, 2003.

The annexation resulted in contributed capital of \$102,713,421 consisting of Land and Infrastructure. In the Government-wide Financial Statements, the contributed capital is recorded as a special item in the Statement of Activities. The City considers the annexation an infrequent event and therefore has classified this transaction as a special item. This amount is also reported as a current year addition to Capital Assets as land and infrastructure on the Government-wide Statement of Net Assets.

(17) Commitments and Contingencies

Claims and Judgments

Numerous claims and suits have been filed against the City in the normal course of business. The estimated liability under such claims, based upon information received from the City Attorney, contracted attorneys and the Risk Manager, has been estimated and recorded as accrued claims and judgments payable (See Note 6).

Circulation Improvement and Open Space Agreement

The City entered into a Circulation Improvement and Open Space Agreement (CIOSA) with a developer whereby the City could receive a loan amount up to \$14,395,572 to be used only for certain transportation and circulation improvements, of which \$10,722,124

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

had been received as of June 30, 2004. The City agreed to match the contribution (without interest) by pledging 50% of future Fair Share Fees (developer impact fees) which are recorded in the Circulation and Transportation Special Revenue Fund. During the year ended June 30, 2004, the City received \$681,046 of Fair Share Fees, and \$340,523 was paid to the CIOSA Construction capital projects fund. Through June 30, 2004, \$2,331,434 of Fair Share Fees has been paid. No additional liability has been recorded, because any future repayment is uncertain; any amounts not contributed by February 20, 2016, will be forgiven.

Newport Coast Pre-Annexation Agreement

In Fiscal Year 2001-02, the City entered into a Pre-Annexation Agreement with the Newport Coast Committee that stipulated certain terms and conditions for the annexation of property collectively known as Newport Coast.

In conjunction with the annexation, the City also agreed to sell the water service rights for the annexed area to Irvine Ranch Water District for \$25.0 million. Of the \$25.0 million payable from the Irvine Ranch Water District, \$15.0 million was received in the current year and the remaining \$10.0 million is due in three installments ranging from \$2.0 to \$5.0 million through January 1, 2008. At June 30, 2004, the remaining receivable of \$5.0 million has been recorded as an Intergovernmental Receivable in the Newport Coast Annexation Special Revenue Fund.

Among other basic provisions, the Pre-Annexation Agreement stipulates specific requirements for the use of proceeds from the sale of the water rights to Irvine Ranch Water District. The City has entered into an agreement to reimburse Newport Coast residents \$18.0 million of the \$25.0 million for certain public road and street improvements previously financed by property owner assessments. The assessment debt relief will be provided to Newport Coast residents in equal installments of \$1.2 million over 15 years. The remaining \$7.0 million may be used in locating, planning, and constructing a Community Center within the annexed area. In the event that the Community Center is constructed for less than \$7.0 million, or not at all, the Newport Coast Committee has the option to allocate the funds to further reduce the property owner assessments. In the Government-wide Statements, the \$16.8 million outstanding assessment debt relief has been recorded as a Noncurrent Liability, and the \$7.0 million, including applicable interest earnings, has been restricted in the Net Assets.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

Construction and contractual commitments for major construction projects are as follows:

	Total Project Budget	Project To Date Expenses	Unexpended Commitments
General Plan	\$ 835,193	\$ 416,868	\$ 597,330
City Hall Expansion Design	606,285	-	606,285
CDM Pavement Rehab	1,040,660	37,095	1,001,106
Jamboree Rd Ford/Bison	1,066,000	39,795	836,374
Newport Coast Community Center	623,322	6,667	575,000
Big Canyon Cover Project	6,216,466	2,905,626	3,312,014
Fire Station #7 Land	3,092,000	-	3,092,000
Mariners Library	1,000,000	-	1,000,000

(18) Fund Balance/Net Asset Restatements

General Fund beginning balance has been restated for the over-accrual of prior periods' payroll and allocation of prior periods' interest to Assessment District \$626,113 and the reclassification of Affordable Housing Deposits Payable to Restricted Reserves \$2,543,198, for a total of \$3,169,311.

Assessment District beginning fund balance has been restated by \$240,916 for the allocation of prior periods' interest to all the Assessment Districts.

Beginning Net Assets have been restated by the net effect of changes resulting from the correction of an error in the valuation of City-owned capital assets. The adjustment increased the government-type activities beginning net assets by \$1,316,741 and decreased the business-type activities beginning net assets by \$1,888,327.

The overall effect of the adjustments noted above resulted in an increase of beginning net assets in the Statement of Activities of \$4,726,971 for governmental activities, and a decrease of beginning net assets of (\$1,506,148) for business-type activities.

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

	Beginning Fund Balance/Net Assets July 1, 2003	Adjustments	Beginning Fund Balance/Net Assets as Restated
Fund Balance			
General Fund	\$ 36,322,784	\$ 3,169,311	\$ 39,492,095
Assessment District	674,046	240,916	914,962
Net Assets			
Government-type Activities:			
Infrastructure	262,182,202	1,016,686	263,198,888
Accumulated Depreciation	(83,396,518)	300,055	(83,096,463)
Net Capital Asset	178,785,684	1,316,741	180,102,425
Business-type Activities:			
Work in progress	3,672,560	345,577	4,018,137
Infrastructure	135,478,407	(2,216,626)	133,261,781
Accumulated Depreciation	(39,611,731)	(17,278)	(39,629,009)
Net Capital Asset	\$ 99,539,236	\$ (1,888,327)	\$ 97,650,909

(19) Subsequent Event

The City has issued certain limited obligation, 1911 Act assessment district, improvement bonds listed as follows:

	<u>District Name</u>	<u>Par Value</u>	<u>Issue Date</u>
Assessment District 75	Balboa Business District	\$821,204	July 1, 2004
Assessment District 68	Newport Shores	\$3,813,562	September 1, 2004
Assessment District 69	West Newport	\$4,978,498	September 1, 2004

The bonds are issued in serial maturities over fifteen years ranging from 1.5% to 5.5%. The proceeds of these bonds, together with certain investment earnings, and certain other monies will be used to finance the cost of the undergrounding power, telephone, and cable facilities. Bond proceeds will also be used to establish a debt service reserve fund and to pay the costs of issuance of the Bonds. The aggregate assessed value

CITY OF NEWPORT BEACH
Notes to Basic Financial Statements
June 30, 2004

levied in the three districts exceeds \$600 million. Although the City will be collecting and disbursing funds for these districts, the City has no obligation or duty to pay any delinquency out of any available funds of the City. Neither the faith and credit nor the taxing power of the City is pledged to the payment of the bonds.

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Non-Major Governmental Funds



NON-MAJOR GOVERNMENTAL FUNDS

Non-major Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources which are legally restricted to expenditures for specified purposes. The City of Newport Beach Special Revenue Funds are as follows:

The ***State Gas Tax Fund*** accounts for all State Gas Tax related revenues and expenditures, including street repair, construction, and maintenance. State law requires that these funds be used exclusively for maintenance of the street and highway system.

The ***Traffic Congestion Relief Fund*** was established to account for all revenues received from the State Treasury as per Assembly Bill 2928. These funds must be used only for maintenance or reconstruction costs on public streets or roads.

The ***Asset Forfeiture Fund*** was established to account for all revenues resulting from the seizure of assets in conjunction with criminal cases (primarily drug trafficking). It is the City's policy that all such funds shall be used for enhancement of law enforcement programs.

The ***Contributions Fund*** is used to account for revenues received from other government agencies or private developers and expended for specific street or highway construction projects.

The ***Circulation and Transportation Fund*** is used to account for fair share revenues collected from developers and restricted for capital improvement projects meeting the circulation element of the City's General Plan.

The ***Building Excise Tax Fund*** is used to account for revenues received from builders or developers on building or remodeling projects within the City. Expenditures from this fund are used exclusively for public safety, libraries, parks, beaches, or recreational activities.

The ***Combined Transportation Fund*** is used to account for the revenues and expenditures of funds received from the Orange County Combined Transportation Funding Program. Expenditures from this fund are used exclusively for transportation related purposes.

The ***Arterial Highway Rehabilitation Fund*** is used to account for federal funds available through the Federal Highway Administration Arterial Highway Rehabilitation Program to share the cost of rehabilitating certain arterial roadways in the City.

The ***Community Development Block Grant Fund*** is used to account for revenues and expenditures relating to the City's Community Development Block Grant program. These funds are received from the Federal Department of Housing and Urban Development and must be expended exclusively on programs for low or moderate income individuals/families.

The ***Ackerman Donation Fund*** is used to account for the receipt and disbursement of funds received from the Ackerman Trust. These funds are split between the City and the University of California, Irvine. The City's portion must be used for library and scholarship purposes.

The ***Air Quality Management District Fund*** is used to account for revenues received from the South Coast Air Quality Management District restricted for the use of reducing air pollution.

The ***Environmental Liability Fund*** is used to account for solid waste fees restricted for mitigation of future environmental liability relating to the handling of solid waste.

The ***Supplemental Law Enforcement Services Fund (SLESF)*** is used to account for revenues received from the county to be used exclusively for front line law enforcement services.

The ***Misc. Grants Fund*** is used to account for all other short-term grant programs.

Non-major Debt Service Funds

Debt Service Funds are used to account for debt service transactions including revenue collections and payments of principal and interest on long-term obligations of the City. The City of Newport Beach Debt Service Fund is as follows:

The ***Library COP Fund*** is used to account for the debt service transactions related to the Certificates of Participation used to finance the construction of the Central Library.

Non-major Capital Projects Funds

Capital Projects Funds are used to account for resources used for the acquisition and construction of capital facilities by the City, except those financed by Enterprise Funds. The City of Newport Beach Capital Projects Funds are as follows:

The ***Assessment District Fund*** is used to account for the receipt and expenditure of funds received from 1911 Act and 1915 Act Assessment Districts for capital improvement projects.

The ***CIOSA Construction Fund*** is used to account for the receipt and expenditure of funds for the Circulation Improvement and Open Space Agreement (CIOSA). The improvements include street and frontage improvements.

The ***Bonita Canyon Development Fund*** is used to account for the receipt and expenditure of funds for the Bonita Canyon Public Facilities Agreement. The improvements include certain public parks and recreation facilities, and street improvements and facilities.

The ***Oil Spill Remediation Fund*** is used to account for the receipt of the settlement proceeds from the American Trader Company. These funds must be used on projects affecting the areas damaged by the spill.

The ***Mariners Library Fund*** is used to account for the receipt and expenditure of funds for the Mariners Library Capital Project.

The ***Fire Station 7 Fund*** is used to account for the property acquisition, design and construction of a new fire station which will replace a temporary fire station that provides service in the northern part of the city.

Non-major Permanent Funds

Permanent Funds are used to report resources that are legally restricted for the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs. The City of Newport Beach Permanent Fund is as follows:

The ***Bay Dredging Fund*** is used to account for the receipt of permanent endowments intended to fund the ongoing cost of maintaining and dredging of the Upper Newport Bay.

The ***Ackerman Fund*** is used to account for the receipt of permanent endowments intended as follows: 75% of the fund's proceeds will be used for the purchase of High Tech Library Equipment while the remaining 25% will be used for Scholarships for needy students.

CITY OF NEWPORT BEACH
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2004

Special Revenue

	<u>State Gas Tax</u>	<u>Traffic Congestion Relief</u>	<u>Asset Forfeiture</u>	<u>Contributions</u>
Assets				
Cash and investments	\$ 3,727,627	\$ -	\$ 146,760	\$ -
Receivables:				
Accounts	-	-	-	907,719
Intergovernmental receivables	-	-	4,000	144,362
Restricted cash with fiscal agent	-	-	-	-
Due from other funds	-	-	-	-
Prepaid items	-	-	-	-
Inventory	-	-	-	-
Other	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 3,727,627</u>	<u>\$ -</u>	<u>\$ 150,760</u>	<u>\$ 1,052,081</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 124,639	\$ -	\$ 15,952	\$ 178,300
Accrued payroll	-	-	-	-
Deferred revenue	-	-	-	1,455,235
Due to other funds	-	-	-	375,235
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>124,639</u>	<u>-</u>	<u>15,952</u>	<u>2,008,770</u>
Fund balances:				
Reserved for encumbrances	1,400,242	-	37,376	-
Reserved for debt service	-	-	-	-
Reserved for permanent endowment	-	-	-	-
Unreserved:				
Designated for special purposes	2,202,746	-	97,432	-
Undesignated	-	-	-	(956,689)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances (deficit)	<u>3,602,988</u>	<u>-</u>	<u>134,808</u>	<u>(956,689)</u>
Total liabilities and fund balances	<u>\$ 3,727,627</u>	<u>\$ -</u>	<u>\$ 150,760</u>	<u>\$ 1,052,081</u>

<u>Circulation and Transportation</u>	<u>Building Excise Tax</u>	<u>Combined Transportation</u>	<u>Arterial Highway Rehabilitation</u>	<u>Community Development Block Grant</u>	<u>Ackerman Donation</u>
\$ 4,464,964	\$ 352,922	\$ 2,309,499	\$ 6,450	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	375,464	-
-	-	-	-	460,646	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	2,187	-
<u>\$ 4,464,964</u>	<u>\$ 352,922</u>	<u>\$ 2,309,499</u>	<u>\$ 6,450</u>	<u>\$ 838,297</u>	<u>\$ -</u>
\$ 154,661	\$ 17,761	\$ 7,558	\$ -	\$ 40,236	\$ -
-	-	-	-	-	-
-	-	233,388	-	375,464	-
-	-	-	-	375,007	-
<u>154,661</u>	<u>17,761</u>	<u>240,946</u>	<u>-</u>	<u>790,707</u>	<u>-</u>
-	53,290	903,610	6,450	10,154	-
-	-	-	-	-	-
-	-	-	-	-	-
4,310,303	281,871	1,164,943	-	37,436	-
-	-	-	-	-	-
<u>4,310,303</u>	<u>335,161</u>	<u>2,068,553</u>	<u>6,450</u>	<u>47,590</u>	<u>-</u>
<u>\$ 4,464,964</u>	<u>\$ 352,922</u>	<u>\$ 2,309,499</u>	<u>\$ 6,450</u>	<u>\$ 838,297</u>	<u>\$ -</u>

(continued)

CITY OF NEWPORT BEACH
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2004
(continued)

Special Revenue

	Air Quality Management District	Environmental Liability	Supplemental Law Enforcement	Misc Grants
Assets				
Cash and investments	\$ 30,122	\$ 1,926,921	\$ -	\$ -
Receivables:				
Accounts	-	8,495	-	-
Intergovernmental receivables	25,202	-	-	-
Restricted cash with fiscal agent	-	-	-	-
Due from other funds	-	-	-	-
Prepaid items	-	-	-	-
Inventory	-	-	-	-
Other	-	-	-	-
Total Assets	\$ 55,324	\$ 1,935,416	\$ -	\$ -
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 6,507	\$ -	\$ -	\$ -
Accrued payroll	-	-	-	-
Deferred revenue	-	-	-	-
Due to other funds	-	-	-	-
Total Liabilities	6,507	-	-	-
Fund balances:				
Reserved for encumbrances	-	3,699	-	-
Reserved for debt service	-	-	-	-
Reserved for permanent endowment	-	-	-	-
Unreserved:				
Designated for special purposes	48,817	1,931,717	-	-
Undesignated	-	-	-	-
Total fund balances (deficit)	48,817	1,935,416	-	-
Total liabilities and fund balances	\$ 55,324	\$ 1,935,416	\$ -	\$ -

Debt Service		Capital Projects			
Library COP	Assessment District	CIOSA Construction	Bonita Canyon Development	Oil Spill Remediation	Mariners Library
\$ -	\$ 415,067	\$ 4,434,341	\$ 5,210	\$ 955,595	\$ 972,504
-	-	-	-	-	33,174
-	-	-	-	-	-
566,157	-	-	922,025	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 566,157</u>	<u>\$ 415,067</u>	<u>\$ 4,434,341</u>	<u>\$ 927,235</u>	<u>\$ 955,595</u>	<u>\$ 1,005,678</u>
\$ -	\$ 586,686	\$ -	\$ -	\$ 9,341	\$ 6,050
-	-	-	-	-	-
-	-	-	-	-	33,174
-	-	-	-	-	-
<u>-</u>	<u>586,686</u>	<u>-</u>	<u>-</u>	<u>9,341</u>	<u>39,224</u>
-	-	-	-	75,048	142,016
566,157	-	-	-	-	-
-	-	-	-	-	-
-	(171,619)	4,434,341	927,235	871,206	824,438
-	-	-	-	-	-
<u>566,157</u>	<u>(171,619)</u>	<u>4,434,341</u>	<u>927,235</u>	<u>946,254</u>	<u>966,454</u>
<u>\$ 566,157</u>	<u>\$ 415,067</u>	<u>\$ 4,434,341</u>	<u>\$ 927,235</u>	<u>\$ 955,595</u>	<u>\$ 1,005,678</u>

(continued)

CITY OF NEWPORT BEACH
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2004
(continued)

	<u>Capital Projects</u>	<u>Permanent Fund</u>		<u>Total Other Governmental Funds</u>
	<u>Fire Station 7</u>	<u>Bay Dredging</u>	<u>Ackerman Donation</u>	
Assets				
Cash and investments	\$ -	\$ 3,165	\$ 1,073,552	\$ 20,824,699
Receivables:				-
Accounts	-	-	-	949,388
Intergovernmental receivables	-	-	-	549,028
Restricted cash with fiscal agent	3,092,000	-	-	5,040,828
Due from other funds	-	-	-	-
Prepaid items	-	-	-	-
Inventory	-	-	-	-
Other	-	-	-	2,187
	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,187</u>
Total Assets	<u>\$ 3,092,000</u>	<u>\$ 3,165</u>	<u>\$ 1,073,552</u>	<u>\$ 27,366,130</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ 1,500	\$ 1,149,191
Accrued payroll	-	-	-	-
Deferred revenue	-	-	-	2,097,261
Due to other funds	2,500,000	-	-	3,250,242
	<u>2,500,000</u>	<u>-</u>	<u>-</u>	<u>3,250,242</u>
Total Liabilities	<u>2,500,000</u>	<u>-</u>	<u>1,500</u>	<u>6,496,694</u>
Fund balances:				
Reserved for encumbrances	-	-	-	2,631,885
Reserved for debt service	-	-	-	566,157
Reserved for permanent endowment	-	3,000	772,781	775,781
Unreserved:				-
Designated for special purposes	592,000	165	299,271	17,852,302
Undesignated	-	-	-	(956,689)
	<u>592,000</u>	<u>3,165</u>	<u>1,072,052</u>	<u>20,869,436</u>
Total fund balances	<u>592,000</u>	<u>3,165</u>	<u>1,072,052</u>	<u>20,869,436</u>
Total liabilities and fund balances	<u>\$ 3,092,000</u>	<u>\$ 3,165</u>	<u>\$ 1,073,552</u>	<u>\$ 27,366,130</u>

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CITY OF NEWPORT BEACH
Non-Major Governmental Fund Types
Combining Statement of Revenues,
Expenditures and Changes in Fund Balances
For the Year ended June 30, 2004

Special Revenue

	State Gas Tax	Traffic Congestion Relief	Asset Forfeiture	Contributions
Revenues:				
Other taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	1,484,796	-	2,677	1,308,218
Licenses, permits and fees	-	-	-	-
Fines and forfeitures	-	-	56,975	-
Investment income	37,410	3,704	2,978	-
Net decrease in fair value of investments	(16,675)	(1,667)	(1,340)	-
Donations	-	-	-	50,000
Other	-	-	-	-
Total revenues	1,505,531	2,037	61,290	1,358,218
Expenditures:				
Current:				
General government	-	-	-	-
Public safety	-	-	156,805	-
Public works	-	-	-	-
Community development	-	-	-	-
Community services	-	-	-	-
Capital outlay	1,549,294	84,493	-	1,857,443
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	1,549,294	84,493	156,805	1,857,443
Excess (deficiency) of revenues over expenditures	(43,763)	(82,456)	(95,515)	(499,225)
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	(160,000)	-	-	-
Total other financing sources (uses)	(160,000)	-	-	-
Net change in fund balances	(203,763)	(82,456)	(95,515)	(499,225)
Fund balances (deficit), beginning	3,806,751	82,456	230,323	(457,464)
Restatement	-	-	-	-
Restated fund balance (deficit)	3,806,751	82,456	230,323	(457,464)
Fund balances (deficit), ending	<u>\$ 3,602,988</u>	<u>\$ -</u>	<u>\$ 134,808</u>	<u>\$ (956,689)</u>

Special Revenue

Circulation and Transportation	Building Excise Tax	Combined Transportation	Arterial Highway Rehabilitation	Community Development Block Grant	Ackerman Donation
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	1,300,089	690,542	-	-
681,046	210,087	-	-	-	-
-	-	-	-	-	-
49,768	3,053	22,556	-	5,598	-
(22,184)	(1,361)	(10,054)	-	-	-
-	-	-	-	-	46,250
-	-	-	-	-	-
<u>708,630</u>	<u>211,779</u>	<u>1,312,591</u>	<u>690,542</u>	<u>5,598</u>	<u>46,250</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	152,481	-
-	-	-	-	-	1,500
1,121,902	153,918	1,248,191	85,175	718,732	-
-	-	-	-	60,000	-
-	-	-	-	123,581	-
<u>1,121,902</u>	<u>153,918</u>	<u>1,248,191</u>	<u>85,175</u>	<u>1,054,794</u>	<u>1,500</u>
-	-	-	-	-	-
<u>(413,272)</u>	<u>57,861</u>	<u>64,400</u>	<u>605,367</u>	<u>(1,049,196)</u>	<u>44,750</u>
-	-	-	-	-	-
<u>(340,523)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(330,909)</u>
<u>(340,523)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(330,909)</u>
-	-	-	-	-	-
(753,795)	57,861	64,400	605,367	(1,049,196)	(286,159)
5,064,098	277,300	2,004,153	(598,917)	1,096,786	286,159
-	-	-	-	-	-
<u>5,064,098</u>	<u>277,300</u>	<u>2,004,153</u>	<u>(598,917)</u>	<u>1,096,786</u>	<u>286,159</u>
<u>\$ 4,310,303</u>	<u>\$ 335,161</u>	<u>\$ 2,068,553</u>	<u>\$ 6,450</u>	<u>\$ 47,590</u>	<u>\$ -</u>

(continued)

CITY OF NEWPORT BEACH
Non-Major Governmental Fund Types
Combining Statement of Revenues,
Expenditures and Changes in Fund Balances
For the Year ended June 30, 2004
(continued)

Special Revenue

	Air Quality Management District	Environmental Liability	Supplemental Law Enforcement	Misc Grants
Revenues:				
Other taxes	\$ -	\$ 332,814	\$ 119,171	\$ -
Intergovernmental	144,692	-	-	-
Licenses, permits and fees	-	-	-	-
Fines and forfeitures	-	-	-	39,448
Investment income	231	18,284	436	5,409
Net decrease in fair value of investments	(103)	(8,150)	(196)	(2,434)
Donations	-	-	-	-
Other	-	-	-	-
Total revenues	<u>144,820</u>	<u>342,948</u>	<u>119,411</u>	<u>42,423</u>
Expenditures:				
Current:				
General government	-	-	-	-
Public safety	-	-	119,411	42,423
Public works	96,003	154,389	-	-
Community development	-	-	-	-
Community services	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>96,003</u>	<u>154,389</u>	<u>119,411</u>	<u>42,423</u>
Excess (deficiency) of revenues over expenditures	<u>48,817</u>	<u>188,559</u>	<u>-</u>	<u>-</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	48,817	188,559	-	-
Fund balances (deficit), beginning	-	1,746,857	-	-
Restatement	-	-	-	-
Restated fund balance (deficit)	<u>-</u>	<u>1,746,857</u>	<u>-</u>	<u>-</u>
Fund balances (deficit), ending	<u>\$ 48,817</u>	<u>\$ 1,935,416</u>	<u>\$ -</u>	<u>\$ -</u>

Debt Service		Capital Projects			
Library COP	Assessment District	CIOSA Construction	Bonita Canyon Development	Oil Spill Remediation	Mariners Library
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	144,686
-	-	-	-	-	-
-	-	-	-	-	-
2,687	5,501	47,903	65,517	12,642	9,630
-	-	(21,353)	-	(5,635)	(4,292)
-	-	-	-	-	38,269
-	260,457	-	-	-	-
2,687	265,958	26,550	65,517	7,007	188,293
-	-	-	-	-	-
-	-	-	-	-	-
-	-	645,000	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	1,352,539	516,451	81,792	609,107	299,010
265,000	-	-	-	-	-
302,935	-	-	-	-	-
567,935	1,352,539	1,161,451	81,792	609,107	299,010
(565,248)	(1,086,581)	(1,134,901)	(16,275)	(602,100)	(110,717)
565,088	-	340,523	-	-	97,471
-	-	-	-	-	-
565,088	-	340,523	-	-	97,471
(160)	(1,086,581)	(794,378)	(16,275)	(602,100)	(13,246)
566,317	674,046	5,228,719	943,510	1,548,354	979,700
-	240,916	-	-	-	-
566,317	914,962	5,228,719	943,510	1,548,354	979,700
\$ 566,157	\$ (171,619)	\$ 4,434,341	\$ 927,235	\$ 946,254	\$ 966,454

(continued)

CITY OF NEWPORT BEACH
Non-Major Governmental Fund Types
Combining Statement of Revenues,
Expenditures and Changes in Fund Balances
For the Year ended June 30, 2004
(continued)

	Capital Projects	Permanent Funds		Total Other Governmental Funds
	Fire Station 7	Bay Dredging	Ackerman Donation	
Revenues:				
Other taxes	\$ -	\$ -	\$ -	\$ 451,985
Intergovernmental	-	-	-	5,075,700
Licenses, permits and fees	-	-	-	891,133
Fines and forfeitures	-	-	-	96,423
Investment income	-	32	8,801	302,140
Net decrease in fair value of investments	-	(14)	(3,923)	(99,381)
Donations	-	-	1,935,037	2,069,556
Other	-	-	-	260,457
Total revenues	-	18	1,939,915	9,048,013
Expenditures:				
Current:				
General government	-	-	-	-
Public safety	-	-	-	318,639
Public works	-	-	-	895,392
Community development	-	-	-	152,481
Community services	-	-	1,198,772	1,200,272
Capital outlay	-	-	-	9,678,047
Debt service:				
Principal	-	-	-	325,000
Interest and fiscal charges	-	-	-	426,516
Total expenditures	-	-	1,198,772	12,996,347
Excess (deficiency) of revenues over expenditures	-	18	741,143	(3,948,334)
Other financing sources (uses):				
Transfers in	592,000	-	330,909	1,925,991
Transfers out	-	-	-	(831,432)
Total other financing sources (uses)	592,000	-	330,909	1,094,559
Net change in fund balances	592,000	18	1,072,052	(2,853,775)
Fund balances (deficit), beginning	-	3,147	-	23,482,295
Restatement	-	-	-	240,916
Restated fund balance (deficit)	-	3,147	-	23,723,211
Fund balances (deficit), ending	\$ 592,000	\$ 3,165	\$ 1,072,052	\$ 20,869,436

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
State Gas Tax Special Revenue Fund
For the Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Intergovernmental	\$ 1,357,500	\$ 1,357,500	\$ 1,484,796	\$ 127,296
Investment income	55,000	55,000	37,410	(17,590)
Net decrease in fair value of investments	-	-	(16,675)	(16,675)
Total revenues	1,412,500	1,412,500	1,505,531	93,031
Expenditures:				
Capital outlay	2,591,100	3,434,932	1,549,294	1,885,638
Excess (deficiency) of revenues over expenditures	(1,178,600)	(2,022,432)	(43,763)	1,978,669
Other financing uses:				
Transfers out	(160,000)	(160,000)	(160,000)	-
Net change in fund balance	(1,338,600)	(2,182,432)	(203,763)	1,978,669
Fund balance, beginning	3,806,751	3,806,751	3,806,751	-
Fund balance, ending	<u>\$ 2,468,151</u>	<u>\$ 1,624,319</u>	<u>\$ 3,602,988</u>	<u>\$ 1,978,669</u>

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Traffic Congestion Special Revenue Fund
For the Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Investment income	\$ -	\$ -	\$ 3,704	\$ 3,704
Net decrease in fair value of investments	-	-	(1,667)	(1,667)
Total revenues	-	-	2,037	2,037
Expenditures				
Capital outlay	34,000	84,493	84,493	-
Net change in fund balance	(34,000)	(84,493)	(82,456)	2,037
Fund balance, beginning	82,456	82,456	82,456	-
Fund balance (deficit), ending	<u>\$ 48,456</u>	<u>\$ (2,037)</u>	<u>\$ -</u>	<u>\$ 2,037</u>

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Asset Forfeiture Special Revenue Fund
For the Year Ended June 30, 2004

	Budget Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ -	\$ -	\$ 59,652	\$ 59,652
Investment income	-	-	2,978	2,978
Net decrease in fair value of investments	-	-	(1,340)	(1,340)
Total revenues	-	-	61,290	61,290
Expenditures				
Current:				
Public safety	268,631	256,359	156,805	99,554
Net change in fund balance	(268,631)	(256,359)	(95,515)	160,844
Fund balance, beginning	230,323	230,323	230,323	-
Fund balance (deficit), ending	<u>\$ (38,308)</u>	<u>\$ (26,036)</u>	<u>\$ 134,808</u>	<u>\$ 160,844</u>

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Contributions Special Revenue Fund
For the Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Intergovernmental	\$ 4,804,521	\$ 2,925,602	\$ 1,308,218	\$ (1,617,384)
Donations	1,068,270	263,430	50,000	(213,430)
Total revenues	5,872,791	3,189,032	1,358,218	(1,830,814)
Expenditures				
Capital outlay	9,001,732	2,776,693	1,857,443	919,250
Net change in fund balance	(3,128,941)	412,339	(499,225)	(911,564)
Fund balance (deficit), beginning	(457,464)	(457,464)	(457,464)	-
Fund balance (deficit), ending	<u>\$ (3,586,405)</u>	<u>\$ (45,125)</u>	<u>\$ (956,689)</u>	<u>\$ (911,564)</u>

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Circulation and Transportation Special Revenue Fund
For the Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Licenses, permits and fees	\$ -	\$ -	\$ 681,046	\$ 681,046
Investment income	-	-	49,768	49,768
Net decrease in fair value of investments	-	-	(22,184)	(22,184)
Total revenues	-	-	708,630	708,630
Expenditures				
Capital outlay	2,968,392	1,704,256	1,121,902	582,354
Excess (deficiency) of revenues over expenditures	(2,968,392)	(1,704,256)	(413,272)	1,290,984
Other financing uses:				
Transfers out	(80,000)	(80,000)	(340,523)	260,523
Net change in fund balance	(3,048,392)	(1,784,256)	(753,795)	1,551,507
Fund balance, beginning	5,064,098	5,064,098	5,064,098	-
Fund balance, ending	<u>\$ 2,015,706</u>	<u>\$ 3,279,842</u>	<u>\$ 4,310,303</u>	<u>\$ 1,030,461</u>

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Building Excise Tax Special Revenue Fund
For the Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Licenses, permits and fees	\$ 150,000	\$ 150,000	\$ 210,087	\$ 60,087
Investment income	-	-	3,053	3,053
Net decrease in fair value of investments	-	-	(1,361)	(1,361)
Total revenues	150,000	150,000	211,779	61,779
Expenditures				
Capital outlay	385,537	190,542	153,918	36,624
Net change in fund balance	(235,537)	(40,542)	57,861	98,403
Fund balance, beginning	277,300	277,300	277,300	-
Fund balance, ending	<u>\$ 41,763</u>	<u>\$ 236,758</u>	<u>\$ 335,161</u>	<u>\$ 98,403</u>

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Combined Transportation Special Revenue Fund
For the Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Intergovernmental	\$ 1,765,000	\$ 1,765,000	\$ 1,300,089	\$ (464,911)
Investment income	105,000	105,000	22,556	(82,444)
Net decrease in fair value of investments	-	-	(10,054)	(10,054)
Total revenues	<u>1,870,000</u>	<u>1,870,000</u>	<u>1,312,591</u>	<u>(557,409)</u>
Expenditures				
Capital outlay	<u>2,843,625</u>	<u>2,384,763</u>	<u>1,248,191</u>	<u>1,136,572</u>
Net change in fund balance	(973,625)	(514,763)	64,400	579,163
Fund balance, beginning	<u>2,004,153</u>	<u>2,004,153</u>	<u>2,004,153</u>	<u>-</u>
Fund balance, ending	<u>\$ 1,030,528</u>	<u>\$ 1,489,390</u>	<u>\$ 2,068,553</u>	<u>\$ 579,163</u>

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Arterial Highway Rehabilitation Special Revenue Fund
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 78,908	\$ 78,908	\$ 690,542	\$ 611,634
Expenditures				
Capital outlay	308,037	308,037	85,175	222,862
Net change in fund balance	(229,129)	(229,129)	605,367	834,496
Fund balance (deficit), beginning	(598,917)	(598,917)	(598,917)	-
Fund balance (deficit), ending	<u>\$ (828,046)</u>	<u>\$ (828,046)</u>	<u>\$ 6,450</u>	<u>\$ 834,496</u>

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Community Development Block Grant Special Revenue Fund
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 426,000	\$ 426,000	\$ -	\$ (426,000)
Investment income	-	-	5,598	5,598
Total revenues	426,000	426,000	5,598	(420,402)
Expenditures:				
Current:				
Community development	200,054	202,554	152,481	50,073
Capital outlay	749,891	811,391	718,732	92,659
Debt service:				
Principal	60,000	60,000	60,000	-
Interest and fiscal charges	154,050	154,050	123,581	30,469
Total expenditures	1,163,995	1,227,995	1,054,794	173,201
Excess (deficiency) of revenues over expenditures	(737,995)	(801,995)	(1,049,196)	(247,201)
Other financing sources:				
Transfers out	(15,450)	(15,450)	-	15,450
Net change in fund balance	(753,445)	(817,445)	(1,049,196)	(231,751)
Fund balance, beginning	1,096,786	1,096,786	1,096,786	-
Fund balance (deficit), ending	<u>\$ 343,341</u>	<u>\$ 279,341</u>	<u>\$ 47,590</u>	<u>\$ (231,751)</u>

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Ackerman Donation Special Revenue Fund
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Donations	\$ 46,250	\$ 46,250	\$ 46,250	\$ -
Expenditures				
Current:				
Community services	1,500	1,500	1,500	-
Excess of revenues over expenditures	44,750	44,750	44,750	-
Other financing uses:				
Transfer out	(330,909)	(330,909)	(330,909)	-
Net change in fund balance	(286,159)	(286,159)	(286,159)	-
Fund balance, beginning	286,159	286,159	286,159	-
Fund balance, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Air Quality Management District Special Revenue Fund
For the Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Intergovernmental	\$ 90,000	\$ 90,000	\$ 144,692	\$ 54,692
Investment income	-	-	231	231
Net decrease in fair value of investments	-	-	(103)	(103)
Total revenues	90,000	90,000	144,820	54,820
Expenditures				
Current:				
Public works	70,000	25,000	96,003	(71,003)
Excess (deficiency) of revenues over expenditures	20,000	65,000	48,817	(16,183)
Other financing uses				
Transfers out	(45,000)	(45,000)	-	45,000
Net change in fund balance	(25,000)	20,000	48,817	28,817
Fund balance, beginning	-	-	-	-
Fund balance (deficit), ending	<u>\$ (25,000)</u>	<u>\$ 20,000</u>	<u>\$ 48,817</u>	<u>\$ 28,817</u>

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Environmental Liability Special Revenue Fund
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 462,000	\$ 462,000	\$ 332,814	\$ (129,186)
Investment income	25,000	25,000	18,284	(6,716)
Net decrease in fair value of investments	-	-	(8,150)	(8,150)
Total revenues	<u>487,000</u>	<u>487,000</u>	<u>342,948</u>	<u>(144,052)</u>
Expenditures				
Current:				
Public works	<u>101,737</u>	<u>159,117</u>	<u>154,389</u>	<u>4,728</u>
Net change in fund balance	385,263	327,883	188,559	(139,324)
Fund balance, beginning	<u>1,746,857</u>	<u>1,746,857</u>	<u>1,746,857</u>	<u>-</u>
Fund balance (deficit), ending	<u><u>\$ 2,132,120</u></u>	<u><u>\$ 2,074,740</u></u>	<u><u>\$ 1,935,416</u></u>	<u><u>\$ (139,324)</u></u>

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Supplemental Law Enforcement Special Revenue Fund
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 140,000	\$ 119,171	\$ 119,171	\$ -
Investment income			436	436
Net decrease in fair value of investments	-	-	(196)	(196)
Total revenues	140,000	119,171	119,411	240
Expenditures				
Current:				
Public safety	150,279	119,171	119,411	(240)
Net change in fund balance	(10,279)	-	-	-
Fund balance, beginning	-	-	-	-
Fund balance (deficit), ending	\$ (10,279)	\$ -	\$ -	\$ -

CITY OF NEWPORT BEACH
Budgetary Comparison Schedule
Miscellaneous Grants Special Revenue Fund
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 40,000	\$ 40,000	\$ 39,448	\$ (552)
Investment income	-	-	5,409	5,409
Net decrease in fair value of investments	-	-	(2,434)	(2,434)
Total revenues	40,000	40,000	42,423	2,423
Expenditures				
Current:				
Public safety	40,000	40,000	42,423	(2,423)
Net change in fund balance	-	-	-	-
Fund balance, beginning	-	-	-	-
Fund balance, ending	\$ -	\$ -	\$ -	\$ -

Internal Service Funds



INTERNAL SERVICE FUNDS

The Internal Service Funds are used to allocate the cost of providing goods and services by one department to other departments on a cost reimbursement basis. The City of Newport Beach Internal Service Funds are listed below:

The ***Insurance Reserve Fund*** is used to account for the City's self-insured general liability and workers' compensation program.

The ***Compensated Absence Fund*** is used to account for the City's accumulated liability for compensated absences.

The ***Retiree Insurance Fund*** is used to account for the cost of providing post-employment Health Care Benefit.

The ***Equipment Fund*** is used to account for the cost of maintaining and replacing the City's rolling stock fleet and the rental of the fleet to operating departments.

CITY OF NEWPORT BEACH
All Internal Service Funds
Combining Statement of Net Assets
June 30, 2004

Assets	Insurance Reserve	Compensated Absence	Retiree Insurance	Equipment	Total Internal Service Funds
Current assets:					
Cash and investments	\$ 8,002,087	\$ 1,559,038	\$ 2,069,715	\$ 8,606,370	\$ 20,237,210
Receivables:					
Accounts	-	-	6,348	9,073	15,421
Inventories	-	-	-	318,264	318,264
Prepaid items	-	-	76,194	-	76,194
Total current assets	<u>8,002,087</u>	<u>1,559,038</u>	<u>2,152,257</u>	<u>8,933,707</u>	<u>20,647,089</u>
Noncurrent assets:					
Capital assets:					
Equipment	-	-	-	19,539,273	19,539,273
Less accumulated depreciation	-	-	-	(12,535,725)	(12,535,725)
Total capital assets (net of accumulated depreciation)	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,003,548</u>	<u>7,003,548</u>
Total assets	<u>8,002,087</u>	<u>1,559,038</u>	<u>2,152,257</u>	<u>15,937,255</u>	<u>27,650,637</u>
Liabilities					
Current liabilities:					
Accounts payable and accrued liabilities	160,347	-	-	736,235	896,582
Accrued payroll	-	-	-	51,930	51,930
Capital leases - current	-	-	-	442,202	442,202
Workers' compensation - current	2,499,547	-	-	-	2,499,547
General liability - current	2,350,383	-	-	-	2,350,383
Compensated absences - current	-	1,200,000	-	-	1,200,000
Total current liabilities	<u>5,010,277</u>	<u>1,200,000</u>	<u>-</u>	<u>1,230,367</u>	<u>7,440,644</u>
Noncurrent liabilities:					
Capital leases	-	-	-	420,773	420,773
Workers' compensation	5,893,680	-	-	-	5,893,680
General liability	488,617	-	-	-	488,617
Compensated absences	-	6,596,024	-	-	6,596,024
Total Noncurrent liabilities	<u>6,382,297</u>	<u>6,596,024</u>	<u>-</u>	<u>420,773</u>	<u>13,399,094</u>
Total liabilities	<u>11,392,574</u>	<u>7,796,024</u>	<u>-</u>	<u>1,651,140</u>	<u>20,839,738</u>
Net Assets					
Invested in capital assets, net of related	-	-	-	6,140,573	6,140,573
Unrestricted	(3,390,487)	(6,236,986)	2,152,257	8,145,542	670,326
Total net assets	<u>\$ (3,390,487)</u>	<u>\$ (6,236,986)</u>	<u>\$ 2,152,257</u>	<u>\$14,286,115</u>	<u>\$ 6,810,899</u>

CITY OF NEWPORT BEACH
Internal Service Funds
Combining Statement of Revenues, Expenses
and Changes in Fund Net Assets
For the Year Ended June 30, 2004

	Insurance Reserve	Compensated Absence	Retiree Insurance	Equipment	Total Internal Service Funds
Operating revenues:					
Charges for services	\$ 5,028,122	\$ 1,522,614	\$ 1,629,795	\$ 4,447,237	\$ 12,627,768
Other	381	-	-	4,682	5,063
Total operating revenues	<u>5,028,503</u>	<u>1,522,614</u>	<u>1,629,795</u>	<u>4,451,919</u>	<u>12,632,831</u>
Operating expenses:					
Salaries and wages	-	-	-	1,076,288	1,076,288
Depreciation	-	-	-	1,707,231	1,707,231
Professional services	-	-	-	29,113	29,113
Maintenance and supplies	-	-	-	1,183,643	1,183,643
Fleet parts and supplies	-	-	-	327,254	327,254
Workers' compensation	4,366,625	-	-	-	4,366,625
Claims and judgments	1,862,345	-	-	-	1,862,345
Compensated absences	-	918,644	-	-	918,644
Retiree Insurance	-	-	1,199,546	-	1,199,546
Total operating expenses	<u>6,228,970</u>	<u>918,644</u>	<u>1,199,546</u>	<u>4,323,529</u>	<u>12,670,689</u>
Operating income (loss)	<u>(1,200,467)</u>	<u>603,970</u>	<u>430,249</u>	<u>128,390</u>	<u>(37,858)</u>
Nonoperating revenues (expenses):					
Investment income	66,548	14,204	18,331	84,054	183,137
Net decrease in fair value of investments	(29,663)	(6,331)	(8,171)	(37,466)	(81,631)
Gain on sale of fixed assets	-	-	-	85,730	85,730
Interest expense	-	-	-	(29,164)	(29,164)
Total nonoperating revenues	<u>36,885</u>	<u>7,873</u>	<u>10,160</u>	<u>103,154</u>	<u>158,072</u>
Income (loss) before transfers	<u>(1,163,582)</u>	<u>611,843</u>	<u>440,409</u>	<u>231,544</u>	<u>120,214</u>
Transfers in (note 13)	<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,000,000</u>
Change in net assets	836,418	611,843	440,409	231,544	2,120,214
Net assets (accumulated deficit), beginning	<u>(4,226,905)</u>	<u>(6,848,829)</u>	<u>1,711,848</u>	<u>14,054,571</u>	<u>4,690,685</u>
Net assets (accumulated deficit), ending	<u>\$ (3,390,487)</u>	<u>\$ (6,236,986)</u>	<u>\$ 2,152,257</u>	<u>\$ 14,286,115</u>	<u>\$ 6,810,899</u>

CITY OF NEWPORT BEACH
Combining Statement of Cash Flows - Internal Service Funds
For the Year Ended June 30, 2004

	Insurance Reserve	Compensated Absences	Retiree Medical	Equipment	Total Internal Service Funds
Cash flows from operating activities					
Receipts from user departments	\$ 5,028,122	\$ 1,522,614	\$ 1,635,942	\$ 4,448,008	\$ 12,634,686
Payments to employees	(3,232,844)	(1,266,027)	-	(1,057,699)	(5,556,570)
Payments to suppliers	(3,308,581)	-	(1,228,672)	(1,163,495)	(5,700,748)
Other operating cash receipts	381	-	-	4,682	5,063
Net cash provided (used) for operating activities	<u>(1,512,922)</u>	<u>256,587</u>	<u>407,270</u>	<u>2,231,496</u>	<u>1,382,431</u>
Cash flows from noncapital financing activities:					
Cash received from other funds	<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,000,000</u>
Net cash provided by noncapital financing activities	<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,000,000</u>
Cash flows from capital and related financing activities:					
Acquisition of capital assets	-	-	-	(1,140,130)	(1,140,130)
Proceeds from sale of capital assets	-	-	-	121,449	121,449
Principal payment	-	-	-	(430,611)	(430,611)
Interest paid	-	-	-	(29,164)	(29,164)
Net cash used for capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,478,456)</u>	<u>(1,478,456)</u>
Cash flows from investing activities:					
Interest on investments	<u>36,885</u>	<u>7,873</u>	<u>10,160</u>	<u>46,588</u>	<u>101,506</u>
Net cash provided for investing activities	<u>36,885</u>	<u>7,873</u>	<u>10,160</u>	<u>46,588</u>	<u>101,506</u>
Net increase in cash and cash equivalents	523,963	264,460	417,430	799,628	2,005,481
Cash and cash equivalents, beginning	<u>7,478,124</u>	<u>1,294,578</u>	<u>1,652,285</u>	<u>7,806,742</u>	<u>18,231,729</u>
Cash and cash equivalents, ending	<u>\$ 8,002,087</u>	<u>\$ 1,559,038</u>	<u>\$ 2,069,715</u>	<u>\$ 8,606,370</u>	<u>\$ 20,237,210</u>
Reconciliation of operating income to net cash provided (used) by operating activities:					
Cash flows from operating activities					
Operating income (loss)	<u>\$ (1,200,467)</u>	<u>\$ 603,970</u>	<u>\$ 430,249</u>	<u>\$ 128,390</u>	<u>\$ (37,858)</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Depreciation	-	-	-	1,707,231	1,707,231
Changes in operating assets and liabilities:					
Decrease in accounts receivable	-	-	6,147	771	6,918
(Increase) in inventories	-	-	-	(121,395)	(121,395)
(Increase) in prepaid items	-	-	(29,126)	-	(29,126)
Increase (decrease) in accounts payable and accrued payroll	66,554	(3,680)	-	516,499	579,373
Increase in workers' compensation	1,067,227	-	-	-	1,067,227
(Decrease) in general liability	(1,446,236)	-	-	-	(1,446,236)
(Decrease) in compensated absences	-	(343,703)	-	-	(343,703)
Total adjustments	<u>(312,455)</u>	<u>(347,383)</u>	<u>(22,979)</u>	<u>2,103,106</u>	<u>1,420,289</u>
Net cash provided (used) by operating activities	<u>\$ (1,512,922)</u>	<u>\$ 256,587</u>	<u>\$ 407,270</u>	<u>\$ 2,231,496</u>	<u>\$ 1,382,431</u>
Noncash investing, capital, and financing activities:					
Disposal of fixed assets	-	-	-	35,719	35,719
(Decrease) in fair value of investments	<u>(29,663)</u>	<u>(6,331)</u>	<u>(8,170)</u>	<u>(37,466)</u>	<u>(81,630)</u>
Total of noncash activities	<u>\$ (29,663)</u>	<u>\$ (6,331)</u>	<u>\$ (8,170)</u>	<u>\$ (1,747)</u>	<u>\$ (45,911)</u>

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Fiduciary Funds



FIDUCIARY FUNDS

Fiduciary Funds are used to account for assets held by the City in a trustee capacity, or as an agent for other government entities, private organizations, or individuals. The City of Newport Beach Fiduciary Funds are listed below:

The ***Special Assessment Fund*** is used to account for funds received from affected property owners and payable to holders of 1911 Act, 1915 Act and other special assessment bonds.

The ***Special Deposit Fund*** is used to account for special deposits held by the City in its fiduciary capacity.

The ***Business Improvement District Fund*** is used to account for monies collected from local business districts for district property improvements and business enhancement.

CITY OF NEWPORT BEACH
Agency Funds
Combining Statement of Fiduciary Assets and Liabilities
June 30, 2004

	Special Assessment District Fund	Special Deposit Fund	Business Improvement Fund	Totals
Assets				
Cash and investments	\$ 3,011,649	\$ -	\$ 187,734	\$ 3,199,383
Restricted assets-cash and investments	1,266,072	-	-	1,266,072
Total assets	<u>\$ 4,277,721</u>	<u>\$ -</u>	<u>\$ 187,734</u>	<u>\$ 4,465,455</u>
Liabilities				
Due to bondholders	\$ 4,277,721	\$ -	\$ -	\$ 4,277,721
Due to others	-	-	187,734	187,734
Total liabilities	<u>\$ 4,277,721</u>	<u>\$ -</u>	<u>\$ 187,734</u>	<u>\$ 4,465,455</u>

CITY OF NEWPORT BEACH
Statement of Changes in Fiduciary Net Assets
All Agency Funds
For the Year Ended June 30, 2004

	<u>Balance June 30, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2004</u>
Special Assessment:				
Assets				
Cash and investments	\$ 2,114,256	\$ 4,051,479	\$ (3,154,086)	\$ 3,011,649
Restricted assets - cash and investments	<u>1,307,077</u>	<u>1,206,372</u>	<u>(1,247,377)</u>	<u>1,266,072</u>
Total Assets	<u>\$ 3,421,333</u>	<u>\$ 5,257,851</u>	<u>\$ (4,401,463)</u>	<u>\$ 4,277,721</u>
Liabilities				
Due to bondholders	<u>\$ 3,421,333</u>	<u>\$ 5,257,851</u>	<u>\$ (4,401,463)</u>	<u>\$ 4,277,721</u>
Special Deposit:				
Assets				
Cash and investments	<u>\$ 74,750</u>	<u>\$ 13,937</u>	<u>\$ (88,687)</u>	<u>\$ -</u>
Liabilities				
Due to others	<u>\$ 74,750</u>	<u>\$ 13,937</u>	<u>\$ (88,687)</u>	<u>\$ -</u>
Business Improvement District:				
Assets				
Cash and investments	<u>\$ 184,842</u>	<u>\$ 271,146</u>	<u>\$ (268,254)</u>	<u>\$ 187,734</u>
Liabilities				
Due to others	<u>\$ 184,842</u>	<u>\$ 271,146</u>	<u>\$ (268,254)</u>	<u>\$ 187,734</u>
Totals - All Agency Funds:				
Assets				
Cash and investments	\$ 2,373,848	\$ 4,336,562	\$ (3,511,027)	\$ 3,199,383
Restricted assets - cash and investments	<u>1,307,077</u>	<u>\$ 1,206,372</u>	<u>\$ (1,247,377)</u>	<u>1,266,072</u>
Total Assets	<u>\$ 3,680,925</u>	<u>\$ 5,542,934</u>	<u>\$ (4,758,404)</u>	<u>\$ 4,465,455</u>
Liabilities				
Due to bondholders	\$ 3,421,333	\$ 5,257,851	\$ (4,401,463)	\$ 4,277,721
Due to others	<u>259,592</u>	<u>285,083</u>	<u>(356,941)</u>	<u>187,734</u>
Total Liabilities	<u>\$ 3,680,925</u>	<u>\$ 5,542,934</u>	<u>\$ (4,758,404)</u>	<u>\$ 4,465,455</u>

Statistical Section



CITY OF NEWPORT BEACH
Miscellaneous Statistics
June 30, 2004

General Information

Date of Incorporation 1906
Form of Government Council-Manager

Population

Permanent 79,392
Summer 100,000
Tourist 20,000 to 100,000 per day
Housing units 41,400
Occupancy Factor per dwelling unit 2.00

Area	Square Miles	Acres
Land	25.9	16,584
Bay	2.5	1,600
Ocean	23.0	14,894
Total	51.4	33,078

Population Density

Per square mile 3,062.91 Per acre 4.79

Recreational Area

	Acres
Ocean Water	14,894
Harbor Waters	1,598
Parks	258
Beaches	237
Total	16,987

Water Frontage

	Miles
Upper Bay Frontage	13
Ocean	10
Harbor	21
Total Water Frontage	44

Newport Harbor

Boats 9,900
Residential 1,230
Commercial Slips and Side Ties 2,330
Bay Moorings 1,235

Public Safety

	Police	Fire
Number of Stations	1	8
Number of Personnel	237	148

Unaudited – See Accompanying Auditors' Report.

Governmental Revenues by Source (1)
(Last Ten Fiscal Years)

Fiscal Year	Taxes	Licenses, Fees and Permits	Inter-governmental Revenue	Charges for Services	Fines, Forfeitures and Penalties	Revenue from Use of Money and Property (2)	Other	Total
1994-1995	39,719,830	2,409,523	10,704,000	5,109,513	3,156,530	9,676,426	1,089,385	71,865,207
1995-1996	42,853,480	4,851,571	8,315,543	6,278,416	2,855,063	11,000,272	6,540,913	82,695,258
1996-1997	44,523,935	4,081,509	11,871,417	7,185,210	2,529,015	10,497,715	10,208,241	90,897,042
1997-1998	49,385,380	7,303,302	19,656,742	8,314,830	2,573,575	11,422,977	1,593,409	100,250,215
1998-1999	52,903,507	5,680,496	15,189,324	8,779,962	3,290,019	10,666,337	31,864,699	128,374,344
1999-2000	58,846,994	4,247,945	10,867,163	9,068,527	3,442,171	12,405,600	1,508,626	100,387,026
2000-2001	62,908,305	4,553,923	11,463,635	9,906,851	3,555,946	16,069,217	8,439,505	116,897,382
2001-2002	65,878,471	3,350,958	26,227,740	10,338,569	3,384,164	14,157,694	2,529,470	125,867,066
2002-2003	72,864,836	4,397,520	10,379,792	11,156,294	3,448,826	14,235,813	4,530,599	121,013,680
2003-2004	79,874,751	5,429,632	16,108,023	11,516,782	3,605,963	12,384,598	3,182,567	132,102,316

(1) Includes General, Special Revenue, Debt Service and Capital Projects Funds.

(2) Includes Investment Income and Property Income.

Governmental Expenditures by Function (1)
(Last Ten Fiscal Years)

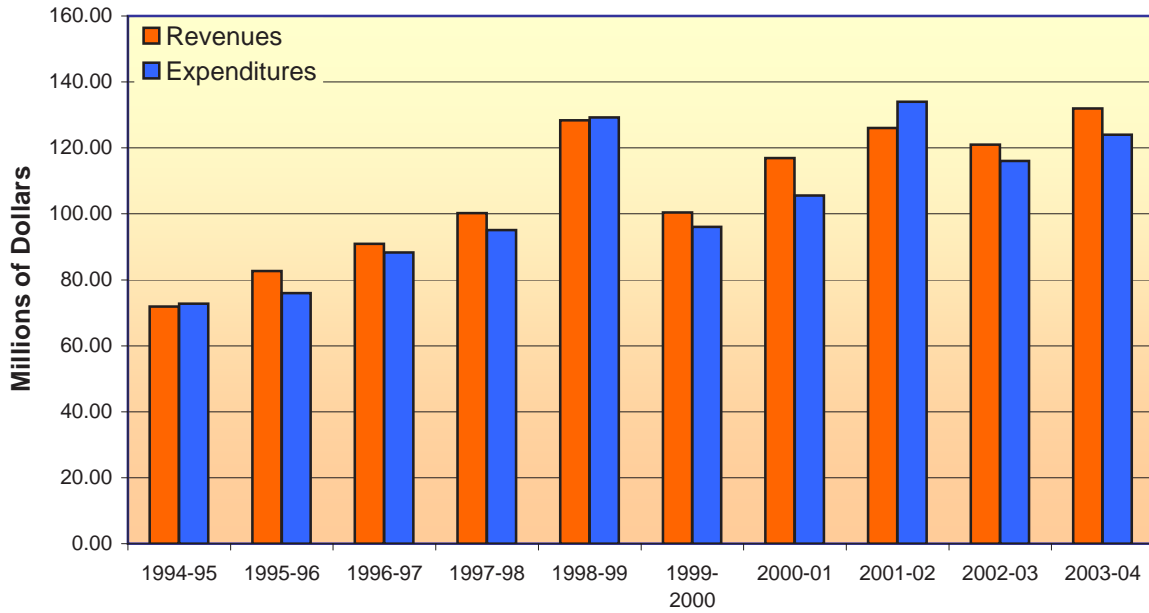
Fiscal Year	General Government	Public Safety	Public Works	Community Development	Community Services	Capital Outlay	Debt Service	Total
1994-1995	5,505,610	33,389,922	14,661,343	3,336,672	5,857,959	8,523,773	1,550,294	72,825,573
1995-1996	5,442,862	34,571,273	14,779,614	2,952,247	5,916,194	11,291,759	1,069,045	76,022,994
1996-1997	5,673,321	35,647,247	15,502,095	3,329,545	6,585,335	20,696,487	890,609	88,324,639
1997-1998	6,790,020	39,168,311	16,579,275	3,475,998	6,916,999	20,849,681	1,299,284	95,079,568
1998-1999	7,471,850	40,514,411	16,846,674	4,688,087	7,733,720	50,684,045	1,252,111	129,190,898
1999-2000	9,441,381	41,735,933	16,898,630	4,271,201	7,932,497	13,984,120	1,795,347	96,059,109
2000-2001	10,239,134	45,346,306	18,477,955	3,842,610	8,623,119	17,293,323	1,777,945	105,600,392
2001-2002	12,292,008	47,841,176	19,418,067	4,586,192	9,418,041	38,613,906	1,758,073	133,927,463
2002-2003	9,689,275	53,035,377	19,368,504	5,457,498	11,273,886	14,684,897	2,352,721	115,862,158
2003-2004	11,024,256	56,849,718	22,780,896	5,723,031	10,827,346	15,188,550	2,188,578	124,582,375

(1) Includes General, Special Revenue, Capital Projects and Debt Service Funds.

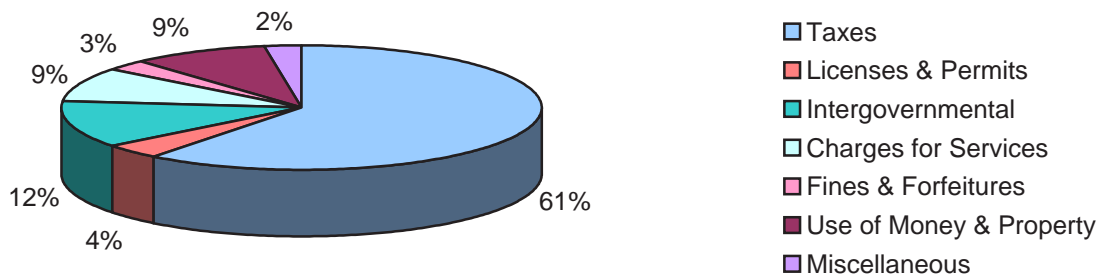
Source: City Administrative Services Department

Unaudited-See Accompanying Auditors' Report.

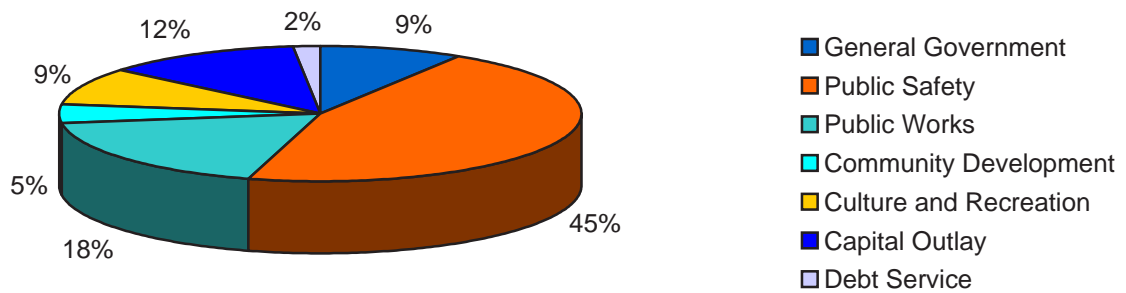
Governmental Revenues and Expenditures (Last Ten Fiscal Years)



Governmental Revenues by Source (Fiscal Year 2003-2004)



Governmental Expenditures by Function (Fiscal Year 2003-2004)



Unaudited-See Accompanying Auditors' Report.

Assessed and Estimated Actual Value of Taxable Property

(Last Ten Fiscal Years)

Fiscal Year	Secured Valuation	Public Utility	Unsecured Valuation	Total Assessed & Estimated Valuation
1994-1995	11,178,202,789	354,820	686,344,530	11,864,902,139
1995-1996	11,078,301,482	354,820	725,943,222	11,804,599,524
1996-1997	11,154,286,162	354,820	754,892,821	11,909,533,803
1997-1998	11,551,641,504	354,820	778,209,144	12,330,205,468
1998-1999	12,343,526,263	354,820	1,009,975,297	13,353,856,380
1999-2000	13,091,299,313	324,960	1,295,776,000	14,387,400,273
2000-2001	15,087,602,671	2,000 (1)	915,394,966	16,002,999,637
2001-2002	16,515,797,641	2,000	913,075,074	17,428,874,715
2002-2003	20,990,583,190	16,531,505 (2)	1,067,598,118	22,074,712,813
2003-2004	22,666,005,413	16,531,505	1,346,385,536	24,028,922,454

(1) Southern California Edison sold property significantly affecting the Public Utility Value.

(2) Pacific Bell acquired property significantly affecting the Public Utility Value.

Source: County of Orange Auditor-Controller's Office

Secured Property Tax Levies and Collections

(Last Ten Fiscal Years)

Fiscal Year	Total Current Levy	Total Current Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Collections	% of Total Tax Collections Total Levy
1994-1995	17,730,237 (1)	17,105,142 (2)	96.47%	409,355 (2)	17,514,497	98.78%
1995-1996	17,843,233 (1)	17,432,840	97.70%	368,913	17,801,753	99.77%
1996-1997	20,563,561	20,096,688	97.73%	897,670	20,994,358	102.09%
1997-1998	21,144,504	20,472,716	96.82%	1,040,120	21,512,836	101.74%
1998-1999	22,738,432	22,084,910	97.13%	1,113,950	23,198,860	102.02%
1999-2000	24,667,494	24,207,104	98.13%	1,398,573	25,605,677	103.80%
2000-2001	27,405,295	26,856,091	98.00%	886,625	27,742,716	101.23%
2001-2002	31,298,541 (3)	30,651,143	97.93%	102,001	30,753,144	98.26%
2002-2003	37,092,528	36,351,026	98.00%	529,986	36,881,012	99.43%
2003-2004	42,469,238	41,420,410	97.53%	670,685	42,091,095	99.11%

(1) Effective FY 92/93-95/96, Orange County reduced Secured Property Tax Levy as a result of the State Budget Process.

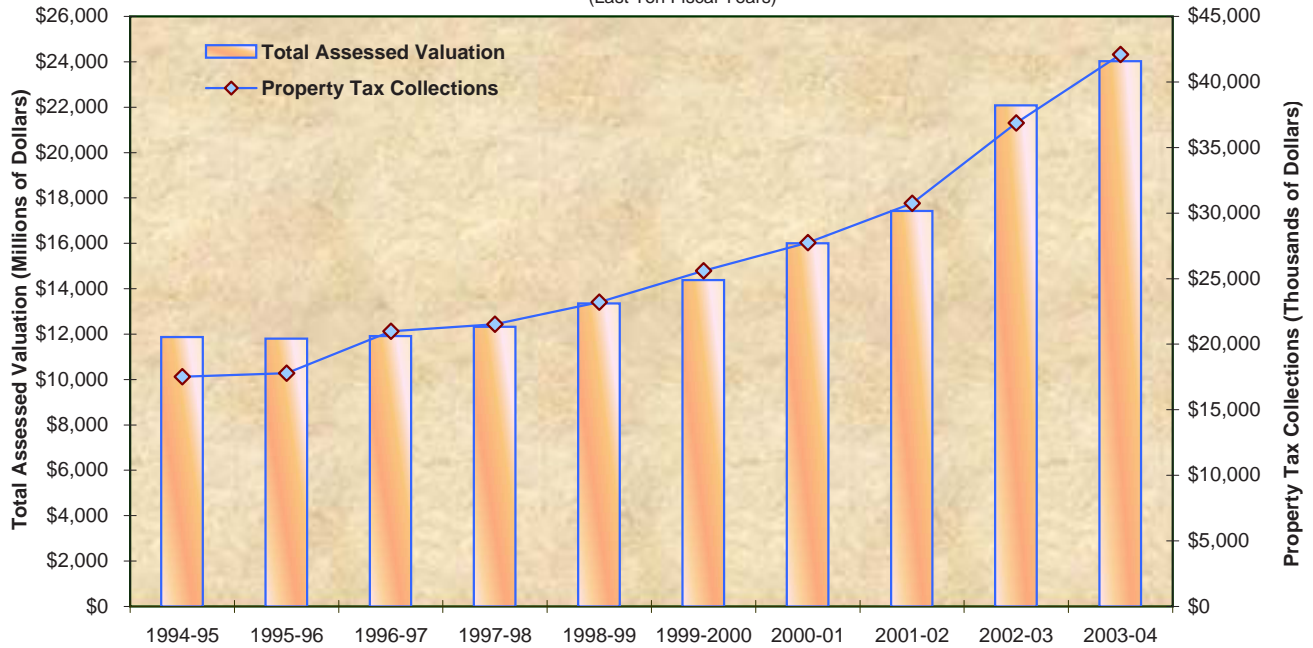
(2) Funds were withheld due to the Orange County Bankruptcy.

(3) Includes estimated levy for Newport Coast properties that were annexed on January 1, 2002.

Source: County of Orange Auditor-Controller's Office

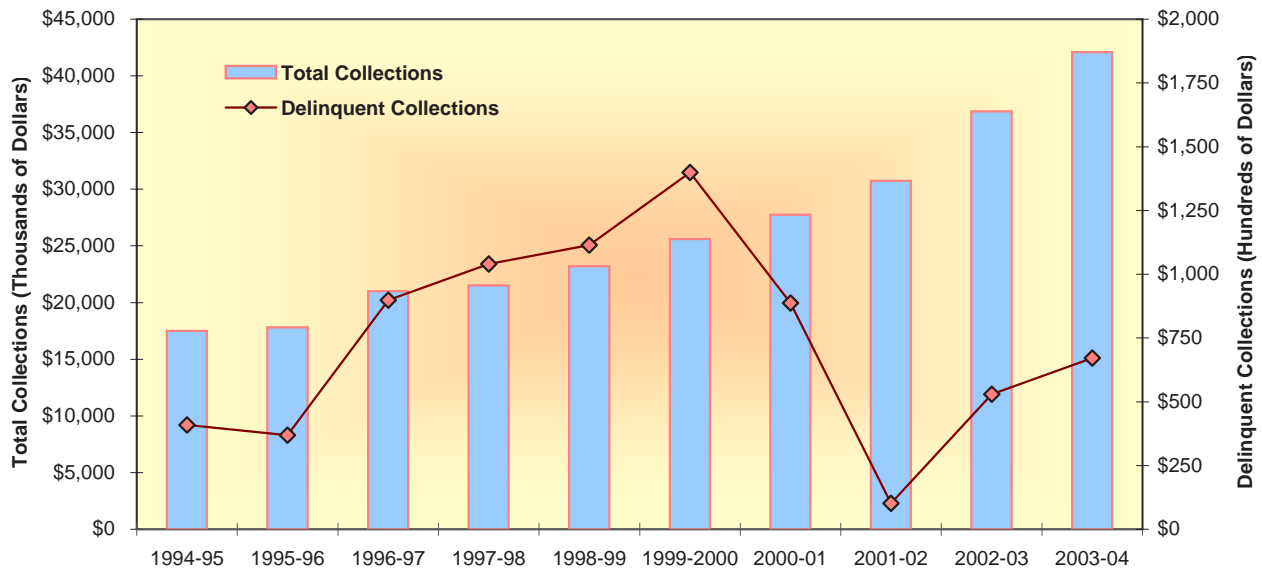
Total Assessed Valuation/Property Tax Collections

(Last Ten Fiscal Years)



Total Property Tax Collections/Delinquencies

(Last Ten Fiscal Years)



Unaudited-See Accompanying Auditors' Report.

Construction Activity
(Last Ten Fiscal Years)

Fiscal Year	Building Permits Issued	Percentage Change	Estimated Valuation	Percentage Change
1994-1995	7,672	9.82%	79,691,510	13.30%
1995-1996	8,302	8.21%	145,760,839	82.91%
1996-1997	9,085	9.43%	203,944,317	39.92%
1997-1998	10,332	13.73%	224,507,349	10.08%
1998-1999	12,076	16.88%	302,598,185	34.78%
1999-2000	10,412	-13.78%	220,623,249	-27.09%
2000-2001	9,361	-10.09%	226,778,793	2.79%
2001-2002	9,030	-3.54%	145,048,360	-36.04%
2002-2003	9,483	5.02%	187,489,183	29.26%
2003-2004	11,628	22.62%	208,840,537	11.39%

Source: City Building Department

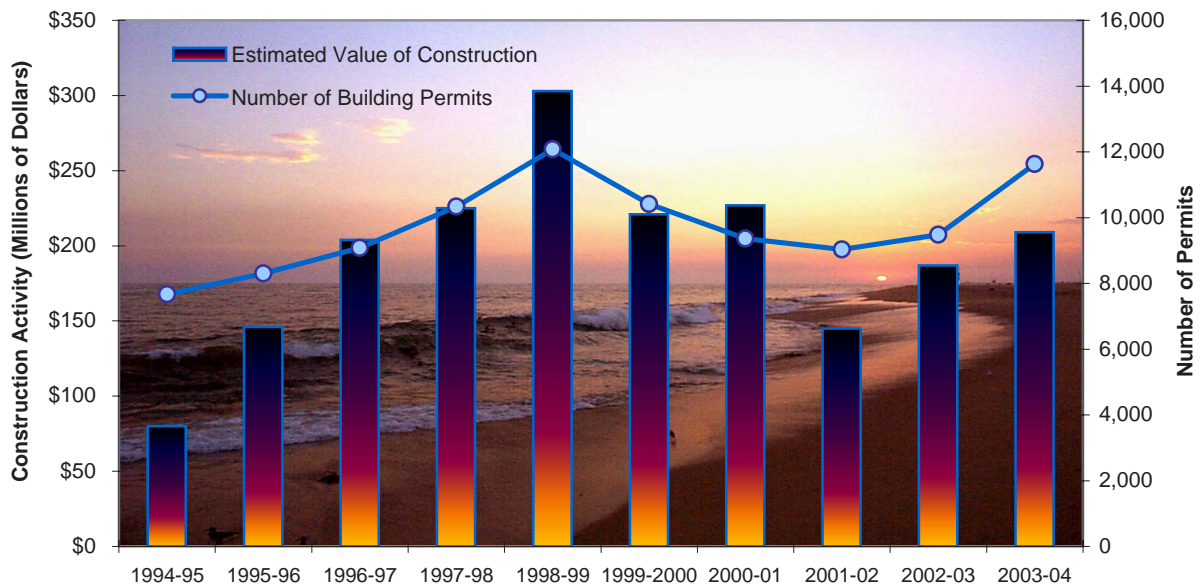
Bank Deposits
(Last Ten Fiscal Years)
(thousands)

Calendar Year	Bank Deposits
1994	4,468,401
1995	4,430,534
1996	3,757,025
1997	3,431,100
1998	3,719,517
1999	3,607,965
2000	3,455,359
2001	3,542,539
2002	4,117,157
2003	5,105,026

2004 data for bank deposits will not be available until 12-31-04

Source: The Findley Reports on California Financial Institutions
Unaudited-See Accompanying Auditors' Report.

Estimated Value of Construction/Number of Building Permits (Last Ten Fiscal Years)



Bank Deposits (Millions of Dollars)



Unaudited-See Accompanying Auditors' Report

Property Tax Rates--Direct and Overlapping Governments

(Per \$100 of Assessed Value)

(Last Ten Fiscal Years)

Fiscal Year	School Districts	County Improvement	County Flood Control	County, City & School Levy	Metro Water District	Total
1994-1995	0.00000	0.00013	0.00037	1.00000	0.00881	1.00931
1995-1996	0.00000	0.00012	0.00000	1.00000	0.00890	1.00902
1996-1997	0.00000	0.00000	0.00000	1.00000	0.00857	1.00857
1997-1998	0.00000	0.00000	0.00000	1.00000	0.00890	1.00890
1998-1999	0.00000	0.00000	0.00000	1.00000	0.00890	1.00890
1999-2000	0.00000	0.00000	0.00000	1.00000	0.00890	1.00890
2000-2001	0.00000	0.00000	0.00000	1.00000	0.00880	1.00880
2001-2002	0.00690	0.00000	0.00000	1.00000	0.00770	1.01460
2002-2003	0.00674	0.00000	0.00000	1.00000	0.00670	1.01344
2003-2004	0.01224	0.00000	0.00000	1.00000	0.00610	1.01834

Source: County of Orange Auditor-Controller's Office

Computation of Legal Debt Margin

June 30, 2004

Total assessed value of all real & personal property	\$24,028,922,454 (1)
Debt limit percentage	15%
Total debt limit	\$3,604,338,368
Amount of debt applicable to debt limit	\$5,845,000
Legal debt margin	\$3,598,493,368

(1) The fiscal year 2004 debt limit is based on assessed value being equivalent to 100% of market value.

Source: City Administrative Services Department

Unaudited- See Accompanying Auditors' Report.

CITY OF NEWPORT BEACH

Principal Taxpayers June 30, 2004

Property Tax
(listed alphabetically)

<u>Principal Taxpayer</u>	<u>Type of Business</u>	<u>2003-04 Assessed Valuation</u>	<u>Percent of Total (1)</u>
Balboa Bay Club	Hospitality	\$ 95,872,185	0.42%
Cornerstone Partners IV LLC	Real Estate	69,200,000	0.31%
CSDV Limited Partnership	Real Estate	73,542,754	0.32%
HMH Properties Inc.	Apartment Buildings	71,585,391	0.32%
Irvine Apartment Communities	Real Estate	327,200,886	1.44%
Jazz Semiconductor Inc.	Aerospace	58,837,541	0.26%
Newport Beach North LLC	Real Estate	132,811,300	0.59%
Park Newport Land Ltd.	Real Estate	64,024,966	0.28%
Rockwell Semiconductor Systems Inc.	Aerospace	106,007,747	0.47%
The Irvine Company	Real Estate	<u>1,194,783,949</u>	5.27%
Total Top Ten Principal Taxpayers		<u>\$ 2,193,866,719</u>	<u>10.44%</u>

(1) Percentage of total secured assessed valuation.

Unaudited-See Accompanying Auditors' Report.

Source: HdL, Coren and Cone Co.

Schedule of Direct and Overlapping Bonded Debt

June 30, 2004

2003-04 Assessed Valuation: \$24,152,007,032
(after deducting \$439,592,217 redevelopment incremental valuation)

DIRECT AND OVERLAPPING BONDED DEBT:	<u>% Applicable</u>	<u>Debt 6/30/04</u>
<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>		
Orange County Teeter Plan Obligations	9.319 %	\$11,595,166
Metropolitan Water District	1.977 %	8,846,581
Coast Community College District	32.885 %	36,173,500
Rancho Santiago Community College District	3.707 %	3,563,354
Laguna Beach Unified School District	6.546 %	2,401,400
Laguna Beach Unified School District Community Facilities District No. 98-1	100 %	7,658,627
Newport Mesa Unified School District	70.809 %	77,241,998
Newport Mesa Unified School District Community Facilities District No. 90-1	17.535 %	3,121,230
Santa Ana Unified School District	9.098 %	12,975,855
Irvine Ranch Water District Improvement Districts	0.049-100 %	60,150,643
Bonita Canyon Public Facilities Financing Authority Comm. Facilities Dist. No. 98-1	81.407 %	36,083,653
City of Newport Beach Special Improvement District No. 95-1	100 %	14,635,000
City of Newport Beach 1915 Act Bonds	100 %	5,453,996
Orange County Assessment District No. 88-1	100 %	42,634,366
Orange County Assessment District No. 99-1R	100 %	20,155,000
Orange County Assessment District No. 01-1	100 %	39,840,000
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		<u>382,530,369</u>

<u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
Orange County General Fund Obligations	9.319 %	86,323,668
Orange County Pension Obligations	9.319 %	10,882,029
Orange County Board of Education Certificates of Participation	9.319 %	1,859,141
Orange County Transit District Authority	9.319 %	460,359
Orange County Water District Certificates of Participation	12.920 %	19,310,878
Municipal Water District of Orange County Water Facilities Corporation	11.133 %	4,644,131
Coast Community College District Certificates of Participation	32.885 %	2,522,280
South Orange County Community College District Certificates of Participation	2.315 %	969,522
Newport Mesa Unified School District Certificates of Participation	70.809 %	1,918,924
Santa Ana Unified School District Certificates of Participation	9.098 %	4,420,508
Irvine Ranch Water District Certificates of Participation	12.083 %	5,896,504
City of Newport Beach Certificates of Participation	100 %	5,845,000
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		<u>145,052,944</u>

TOTAL GROSS DIRECT AND OVERLAPPING BONDED DEBT **\$527,583,313** (1)

Less: Orange County Transit District Authority (80% self-supporting) (368,287)
MWDCO Water Facilities Corporation (100% self-supporting) (4,644,131)

TOTAL NET DIRECT AND OVERLAPPING BONDED DEBT **\$522,570,895**

(1) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to Assessed Valuation:
Combined Direct Debt (\$5,845,000) 0.02%
Total Gross Combined Debt 2.18%
Total Net Combined Debt 2.16%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/04: \$0

Source: California Municipal Statistics, Inc.

Unaudited-See Accompanying Auditors' Report.

Revenue Bond Coverage
(Last Ten Fiscal Years)

Fiscal Year	Gross Revenues (1)	Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1994-1995	14,817,854	11,471,118	3,346,736	0	811,037	811,037	7.27
1995-1996	16,145,307	13,220,028	2,925,279	820,000	898,878	1,258,420	2.32
1996-1997	18,221,967	14,651,987	3,569,980	845,000	854,130	1,699,130	2.10
1997-1998	16,497,212	12,350,445	4,146,767	875,000	784,390	1,659,390	2.50
1998-1999	17,658,076	11,145,936	6,512,140	335,000	593,469	928,469	7.01
1999-2000	17,770,491	11,713,223	6,057,268	1,025,000	551,668	1,576,668	3.84
2000-2001	18,215,185	11,784,120	6,431,065	1,105,000	510,225	1,615,225	3.98
2001-2002	17,809,919	13,289,297	4,520,622	1,145,000	456,573	1,601,573	2.82
2002-2003	17,326,604	12,430,144	4,896,460	1,185,000	465,573	1,650,573	2.97
2003-2004	18,558,258	15,256,454	3,301,804	1,230,000	392,958	1,622,958	2.03

(1) Gross revenues includes operating revenues, interest and intergovernmental revenues in the Water Fund.

(2) Total Water Fund operating expense excludes depreciation.

Demographic Statistics
(Last Ten Fiscal Years)

Fiscal Year	City Population	Orange County Population	City Population % of County	Per Capita Income	Median Age	Unemployment Rate
1994-1995	69,301	2,564,345	2.70%	50,515	40.3	3.6%
1995-1996	70,098	2,615,046	2.68%	52,452	40.6	3.2%
1996-1997	69,069	2,672,457	2.58%	53,569	41.7	2.6%
1997-1998	70,030	2,710,718	2.58%	56,000	43.5	2.0%
1998-1999	72,623	2,775,600	2.62%	59,051	43.9	1.8%
1999-2000	73,965	2,828,400	2.62%	62,598	44.4	1.6%
2000-2001	70,032	2,846,289	2.46%	63,015	41.6	1.6%
2001-2002	75,662	2,939,500	2.57%	64,303	40.9	2.5%
2002-2003	79,392	2,978,000	2.67%	67,073	50.8	2.4%
2003-2004	80,800	3,017,300	2.68%	67,256	50.3	1.9%

Source: City Library Services Department

Unaudited-See Accompanying Auditors' Report.